CHEMICAL
FINANCIAL CORPORATION

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October 22, 2012

Sent Via Email And First Class Mail

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue
Washington, DC 20551
Regs.comments@federalreserve.gov

Re: Basel III Proposals

Board of Governors:

Chemical Financial Corporation, through its subsidiary Chemical Bank, is a regional bank located in Michigan's lower peninsula. Chemical Bank is a community bank, and serves the banking needs of both rural and urban customers and businesses. The Basel III proposals in the areas of recognition of gains and losses on available-for-sale securities and risk weighting for certain types of residential mortgages would seriously and negatively impact the ability of Chemical Bank to meet the needs of its customers, and would not significantly enhance the financial soundness of Chemical Bank, or other community banks.

The proposed requirement that unrealized gains and losses be recognized in the calculation of common equity tier I capital will push banks to investing in highly liquid investments with low credit risk and low yields, or to list securities as hold-to-maturity with a resulting loss of flexibility for banks to manage their investment portfolios. There are adequate rules already in place to assess the risk of bank investment portfolios. Chemical Bank itself purchases bonds from many small municipalities and school districts in its market. The proposed changes could significantly restrict Chemical Bank's appetite for such investments, which typically have a significant term to maturity.

With respect to mortgage loans, two aspects of the proposed rules are concerning. First, the requirement that all balloon loans be automatically risk-weighted as Category 2 loans is unduly harsh. In Chemical Bank's rural markets, some mortgage loans are ineligible for long-term fixed rate financing through FNMA or FHLMC due to issues of property acreage exceeding limits, or mixed use (residential, commercial and/or agricultural). The proposed rules would make it less attractive for Chemical Bank and other community banks to make such loans, to the detriment of the communities they serve.

The second troubling aspect of the rules on mortgage lending is the proposal that all junior liens as be listed as category 2 loans. If the first mortgage lender also holds the second mortgage (often a home equity line of credit), the two mortgages together constitute essentially a first mortgage and should be treated as such for risk weighting purposes. If the first and second mortgages are held by different lenders, the second mortgage should carry no higher risk rating than would an unsecured line of credit. The proposed rules will have the unfortunate effect of restricting home equity lending and impede the ability of Chemical Bank to assist in the rebuilding of Michigan's economy.

I urge that the impact of the Basel III rules on community bank lending be considered seriously, and appropriate changes made.

Sincerely,

William C. Collins
Executive Vice President, General Counsel
And Secretary