October 22, 2012

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

Robert E. Feldman
Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
comments@FDIC.gov

Office of the Comptroller of Currency
250 E Street SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov

RE: Basel III Capital Proposals

Ladies and Gentlemen,

I appreciate your time in allowing me to express why I believe the Basel III Capital proposals should not be imposed on small community banks with noncomplex balance sheets. While many of the conditions do not apply to our Bank of under $500M, those that are applicable only serve to add volatility to the balance sheet.

The Accumulated Other Comprehensive Income is the clearest for me to quantify. While our institution currently reflects a positive value, I have seen monthly swings in this value, both positive and negative, that dwarf our average monthly income. It just doesn't make sense to me that we could be thrown into an under well-classified category simply because as rates rise from these historically low levels the fair market value of these securities is reduced.

The new risk weighting for our assets is baffling to me as well. The effects could force us to curtail issuance of several types of mortgage loans that otherwise strengthen our balance sheet. The housing market in general has hit some rough times, but our institution has rarely had to foreclose on any mortgage, which can be verified by looking at our call reports. So the potential of having to risk weight these generally lower rate loans at over 100% could force us out of that lending area. The same is true of the mortgage servicing rights. This not only would hurt the community banks, but in our case, the Federal Home Loan Bank, because we would most likely discontinue selling mortgages to them and work with providers that retain the servicing.

From our holding company perspective, we issued Trust Preferred Securities in 2003, maturing in 2033, with the understanding that we could utilize these as a source of capital. We do not have the ability to raise capital easily for our closely held S-Corporation and this reversal would be very detrimental. We are currently exempt from this provision given the asset size of our holding company, but are closing in on the $500M balance, causing major concerns for our institution.

Additionally, the potential for the imposition of a distribution prohibition to our S-Corp shareholders would be devastating at a time when we would be looking to attract shareholders to add capital.

Please give more consideration to the drastic and negative impact the Basel III framework would have on community banks and exempt them from these requirements.

Sincerely,

Kathleen J. Brown, VP & Controller
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