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BANKING ON YOUR FUTURE.

October 19, 2012

Department of the Treasury: Comptroller of the Currency
Subject Line: Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements
E-mail: regs.comments@occ.treas.gov; or FAX: 202-874-5274

Federal Reserve System
Subject Line: Docket No. R-1442; RIN No.7100 AD 87 Regulatory Capital Rules
E-mail: regs.comments@federalreserve.gov; of FAX: 202-452-3819 or 202-452-3102

Federal Deposit Insurance Corporation
Subject Line: FDIC RIN3064-AD 96 Regulatory Capital Rules
E-mail: comments@FDIC.gov

Dear Sir or Madam:

Thank you for the opportunity to comment on the proposed Regulatory Capital Rules commonly referred to as Basel III ("Proposal"). Also, thank you for extending the comment period which allowed us additional time to evaluate the Proposal.

To help understand the effects, we studied the Proposal, attended the FDIC's informational program and utilized the Basel III template to estimate future capital needs under the Proposal. Based on this, there are many concerns, not only with the additional capital outcome, but with the underlying assumption this is appropriate to community banks, our communities and ultimately, our nation. It is our belief that this Proposal, if adopted, will be detrimental to all the aforementioned.

This model is a one-size-fits-all approach. Community banks' balance sheets look nothing like that of any of the largest banks in the United States. The risks are very different, as well as the complexities. We are not using complex financial instruments, pooling loans and securitizing them or involved in investment banking. Our capital structure should not be derived in the same manner as theirs.

The Collins Amendment of the Dodd-Frank Act requires community banks to phase-out trust preferred securities and cumulative preferred stock from Tier 1 capital over ten years. This is not necessary. These capital tools were not the cause of our nation's financial problems. I believe they have been pointed at symptomatically, when in fact, they remain legitimate and useful capital augmentation and capital contingency tools. Taking these tools away, could have negative unintended future consequences.

Under the Proposal, balloon notes on 1-4 family residential mortgage loans will move from a current risk rating of 50% up to 100% and 200%, depending on loan-to-value. Balloon loans are a cost effective way for community banks to manage interest rate risk. Our deposit mix is theoretically short-term . Escalating balloon mortgages to 30 year maturities will severely increase a community bank's interest rate risk. That is assuming community banks will want to continue to making 1-4 family residential mortgage loans. Because of the high cost of capital, I anticipate a significant reduction in this type of lending by community banks, to the detriment of consumers.

The 150% risk rating provision on past due or non-accrual loans is unnecessary. With very few exceptions, these loans are already being treated for impairment in accordance with FASB 5. If an impairment is found, appropriate reserves are already being allocated. It appears to me that this provision is duplicative, punitive and unnecessary.

Finally, there is a significant cost to capital based on the return expectations of an investor. If an investor demands an annual return of 12% and after Basel III a community bank is required to carry 20% additional capital, the resulting 10% return on equity will not be sufficient for that same investor. As we have seen over the past four years, raising capital in the community bank setting has been extremely difficult. With lower expected returns for potential investors, this will only make complying with the proposed, and increased, Basel III capital requirements that much more difficult to attain.

In summary, I believe that this one-size-fits-all capital approach is not appropriate and has a very high probability of creating negative unintended consequences. I urge you to reconsider this proposal and come up with a less complex system that is appropriate for community banks.

Sincerely,

Robert M. Wiley
President/CEO

Christopher R. Donnelly
Executive Vice President

Everett L. Hixson
Chief Financial Officer