From: Town and Country Financial Corporation, Micah R. Bartlett, President and CEO

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

October 21, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Via Email: regs.comments@federalreserve.gov

Re: Basel III Docket No. 1442

Dear Ms. Johnson,

I am the President and CEO of Town and Country Financial Corporation, a $450 million two-bank holding company serving four central Illinois communities and the surrounding area. I am also a CPA, and have been employed in the banking industry for 22 years.

I respectfully request that the proposed capital rules be tabled while additional analysis is performed and other alternatives are considered. Major changes to capital standards will have vast implications to the community banking industry and the economies in the communities we serve. While community banks can only begin to estimate the impact this proposal will have on our banks and our lending activities, we are not able to estimate the macro-industry and macro-economic implications. That should be the responsibility of the regulatory bodies proposing the rules.

There are significant flaws in the various details included in the proposal. Our institution has serious concerns particularly related to AOCI, the elimination of Trust Preferred capital, and the arbitrary risk-weightings applied to various asset classes, among other issues. However, I view these concerns as merely by-products of my primary concern, which is that the entire proposal is based on the wrong approach.

Based on the significant turmoil in the banking industry and the general economy over the last several years, it has never been more important to establish a truly effective capital accord. In my opinion, it would be more effective to establish a process to create a capital accord with a principles-based approach rather than the current proposal which is too prescriptive. Continuing to have capital standards be more prescriptive makes it almost impossible to capture the nuances of thousands of bank balance sheets and the future evolution of our economy and industry.

Instead, we should develop a long-term strategy to create a regulatory capital accord based on principles that would encourage a market-based approach to risk while also encouraging banks to adopt a counter-cyclical capital plan. The current proposal is not market-based, but rather formula based, and exacerbates pro-cyclicality rather than encouraging counter-cyclicality. I fear that using such an approach will lead to further volatility and deeper recessions in the future, just as it has in the past.

While it is not possible to create a principles-based capital accord in one step, it is possible to implement incremental steps with that long-term strategy in mind. This is the only way that we will be able to establish the proper risk-reward equilibrium needed for a safe and sound banking system.

I recommend establishing a multi-disciplinary commission charged will establishing such a long-term strategy, including multiple faces of implementation.

Most community banks have not had sufficient time nor do they have the capacity to fully assess the implications of the existing proposal. I believe there are far more questions than answers, and the proposal should not move forward until those questions are answered. For example, if the proposal were adopted as is:

· What would be the aggregate increase or decrease in each of the existing Tier 1 Leverage, Tier 1 Risk-Based, and Total Risk-Based capital ratios across the industry?

· What percentage of community banks would see their capital ratios increase? What percentage would see them decrease? And by what ranges?

· What would be the effect on the aggregate of those ratios if interest rates rose 400 basis points? What if short-term rates rose more than long-term rates?

· If a meaningful number of banks became less than well capitalized in the future, what would be the response from the regulatory bodies? Would the capital standards be adjusted again?

· For those banks that would see a capital ratio decrease, what is the aggregate estimated reduction in lending activities? What impact would those reductions have on the economy, the housing market, and unemployment?

· What would be the impact on community banks' ability to raise capital when competing against other industries?

· Are the proposed risk-weightings based on likely future risks or based on observed past risks?

· How will the risk-weightings be adjusted as the industry and economy reacts, new products and lending standards are developed, and banks evolve in the future?

· How will regulators assess capital relative to risks that are not contemplated as part of the prescribed formulas?

· To what extent will these capital standards encourage non-regulated businesses to further enter the lending markets? What are the risk implications of such a shift?

· To what extent will these capital standards encourage additional consolidation within the industry? What impact will this have on the community banking industry? What impact will this have on small, rural communities and their economies?

- What mechanisms are in place to measure the unintended consequences of the new capital standards, and is there a contemplated approach for the regulatory bodies to react to the inevitable changes?

I remain optimistic that the current proposal will not be implemented. However, if the decision is reached to move forward with a prescriptive capital accord, then at a minimum, far more time is needed to fully analyze the implications and develop changes to make the proposal more effective. A long-implementation period does not address the concerns. Once the rules are known and adopted, the market and capital providers will immediately react, and the implications-of which we do not yet have a full grasp-will begin to take hold anyway. While banks and other players in the industry should provide commentary and analysis relative to their individual institutions, the regulatory bodies need to take the responsibility of assessing the macro-economic and industry implications over multiple scenarios of likely future economic realities.

I would be happy to provide any additional information or comments on this most important issue.

Respectfully submitted,

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