FLAGSHIP BANK

October 15, 2012

Jennifer J. Johnson, Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.,
**Email: regs.comments@federalreserve.gov**
Washington, D.C. 20551
Docket No. R–1430; RIN No. 7100–AD87
Docket No. R–1442; RIN No. 7100–AD87

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219
**Email: regs.comments@occ.treas.gov**
Docket ID OCC-2012-0008
Docket ID OCC-2012-0009

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
**Email: comments@fdic.gov**
FDIC RIN 3064–AD95
FDIC RIN 3064–AD96

RE: My comments in response to the notice of proposed rulemaking (NPR) on minimum regulatory capital and the standardized approach for risk-weighted assets as proposed by Basel III.

Dear Ladies and Gentlemen,

As a community banker, I recognize the importance of appropriate levels of capital as a key component of a safe and sound bank and banking system. I have a very vested and direct interest in maintaining a healthy banking system. Maintenance of adequate levels of capital for my bank is not my concern. Rather, my concern is the process and consequences of instituting complex new rules on community banks irrespective of the size or risk profile of the bank.

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The Basel III proposals were intended for large, sophisticated financial institutions competing with others of a similar scale across the globe. I am very troubled that our own U.S. regulatory authorities would include community banking in these complex new capital rules. The new capital proposal is unnecessary and a costly regulatory burden that will result in damaging unintended consequences for my bank and quite likely result in further consolidation of the community banking industry. This is the last thing our local business communities need to happen. Community Banks represent main street America and are the back bone of society and the largest employers in the country.

For the very reason that the agencies have proposed these rules –the safety and soundness of the industry –community banks should be exempt from these proposals and allowed to continue to measure capital according to present methodology.
Lawmakers, regulators, the press, and the general public including my customers all agree that community banks didn't participate in the bad behavior that contributed to the financial meltdown. However, the proposed "fix" is making life difficult, if not impossible, for my bank and other community banks to survive. If these proposals are applied to community banks, many will decide that the barrage of federal law and regulatory overkill has rendered their business unsustainable.

The ongoing and complex collection and reporting of information on various asset categories required by the proposed rules will further tax the limited resources of my bank. The added cost and time needed to comply with these provisions—without benefit to the bank or the public – are reasons enough to exempt community banks from this proposal. We simpoly can't afford to employ more staff for the sole purpose of complying with unnecessary additional balance sheet management.

The historically low interest rate environment has created issues for a many community banks. My bank and others will eventually face potentially significant unrealized losses in their securities portfolios. This could easily create scenarios in which a formerly well-capitalized bank could face severe sanctions due solely to market rate movements. Further, the "mark to market" requirement will require my bank and others to hold more capital to compensate for inevitable swings in interest rates, thus hindering growth and lending opportunities.

Community banks typically invest in issuances of their local governmental entities. The cost of borrowing for these public entities will likely increase as community banks will be reluctant to hold longer maturity securities for fear of rate-driven capital degradation. This could result in a significant negative impact on infrastructure development at the state and local level as well as harm projects that create jobs locally.

My bank and other community banks are long-term investors, and do not actively trade their securities portfolio; therefore, inclusion of unrealized gains or losses in the securities portfolio as proposed is only meaningful in a liquidation scenario. The proposed changes, incorporating market rate swings into Common Equity Tier 1 capital, will result in banks moving to shorter maturities, giving up precious and dwindling earnings opportunities, experiencing limited flexibility in managing their portfolio, sacrificing liquidity by moving securities to the "Held to Maturity" bucket, limiting loan growth, and forgoing expansion.

Furthermore the proposed risk weighting to various asset classes will be challenging, expensive, and a strong disincentive for me to provide any lending options for my customers. Specifically this will serve as a strong disincentive to mortgage and real estate lending at my bank, especially loans kept in my banks' portfolio.

Further, the introduction of "High Volatility Commercial Real Estate" (HVCRE), with a 150% risk weighting and limited exemptions will limit my bank's willingness to make these loans and raise borrowing costs in this already challenged market and result in additional harm to an already shaky real estate lending market.

Where does the current Allowance for Loan and Lease Losses reserves fit into the mix? Specific allocations are already made for higher risk, classified, past due and non-accrual loans. It appears that with the additional proposed capital requirements of Basel III are just layered on top of those calculations.

From my perspective, this particular point in the economic cycle would appear to be perhaps the worst time possible for regulatory policies like Basel III that result in disincentives for community banks like mine to fund properly underwritten real estate loans. While apparently well-intentioned from all appearances, many of these changes will limit choices and raise costs for my customers. Further, the resultant increased market share and concentration of residential real estate mortgage loans in the largest banking institutions is simply not healthy for our economy.

The community banking industry is overwhelmed by government regulation, and this proposal unnecessarily piles on additional regulatory burdens. Ultimately, these burdens will lead to higher borrowing costs and diminished availability of both credit and bank services to consumers, small businesses, and local governments.

The Basel III proposal is counterproductive to my bank, to the local economy, to the state economy and the national economy Therefore the logical thing to do is to exempt all but those complex international banking institutions considered "systemically important" from these burdensome, elaborate, and counterproductive capital rules.

Thank you for the opportunity to comment on these proposals.

Sincerely,

Steven L. Droen
President/CEO