



October 17, 2012

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals¹ that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. I believe that in general the implementation of Basel III will jeopardize the entire Community Banking community and the long term viability of our model. We are a \$43 million Community Bank in South Western Washington and deal primarily with small retail and manufacturing businesses. We have over \$34 million in loans to small businesses and if Basel III is implemented as proposed could reduce our ability to loan to these businesses. Our Tier One Capital is currently at 9.8% and our regulators want us to maintain or improve on this level. With limited capital markets available to Community Banks our primary source of Capital are retained earnings. So for every \$100,000 reduction in Tier One Capital we will have to reduce lending by \$ 1 million. This reduction in lending would have a significantly negative impact on our community since there are limited sources available for lending to our customers.

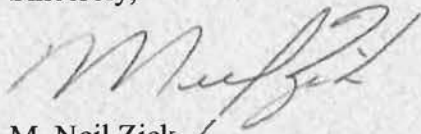
Higher risk ratings on nonperforming loans duplicate the purpose of Allowance for Loan Losses and will further reduce Tier One Capital. Again for every \$100,000 in Tier One Capital reduction we will need to reduce \$1 million in loans to our community.

¹ The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

The Accumulated Other Comprehensive Income could also have a significant negative impact on our ability to loan in a raising rate environment. We have a small investment portfolio primarily for Liquidity purposes and don't actively trade securities but a 3% increase in interest rates would reduce our Tier One Capital over \$200,000 under the current proposal further restricting our ability to lend. As you can imagine any reduction in our ability to lend also reduces our profit, our retained earnings and our ability to grow and service our community.

The current capital regulations with respect to Community Banks work. Changing and implementing new Basel III requirements will impose significant compliance burdens on Community Banks to implement, as well as our ability to lend at the current levels. Any reduction in our ability to loan has a negative affect on our local businesses and the local economy.

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Neil Zick".

M. Neil Zick
President and CEO