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September 26, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

Re: Basel III Proposals; Docket No. 2012-0008

Dear Ms. Johnson:

As President and CEO of a small community bank (\$170 million in total assets) and its one bank holding company, I am writing to suggest that everyone take a deep breath before imposing onerous regulations on our segment of the financial services industry. Chairman Bernanke, Governor Tarullo and New York Fed President Dudley have expressed support for community banks in their pronouncements. However, Basel III, as proposed, would be very detrimental to the existence of community banks throughout the country.

We agree that adequate capital is a good thing. Hilltop Community Bank has double digit levels of capital as measured by all three traditional definitions. Assigning "one size fits all" risk weightings on home equity loans, for example, would negatively impact capital measurements at Hilltop and at many other strong community banks. The proposed regulations would discourage residential lending at a time when a rebound in the housing market is critical for the recovery of the US economy.

If the proposed regulations are enacted, community banks will struggle to deal with the other comprehensive income issue. Banks may be incentivized to hold more securities in the held to maturity account. While the move to the HTM account would no longer require gains and losses on those securities to be recorded in Tier 1 capital, the operational restrictions imposed on the HTM account would greatly reduce management's ability to properly adjust its portfolio for liquidity and funds management purposes. Additionally, when different institutions place identical securities in AFS or HTM, it creates differing capital treatments even though the relative risks involving the securities are identical.

If Basel III is intended to be a useful tool when dealing with the larger banks, perhaps it would make sense to give a waiver to smaller institutions.

Very truly yours,

A handwritten signature in red ink, appearing to read "Mortimer J. O'Shea", is written over a horizontal line.

Mortimer J. O'Shea, President & CEO,