



September 5, 2012

Federal Reserve Board  
20<sup>th</sup> St & Constitution Ave NW  
Washington, DC 20551

Reference: Basel III implementation

Dear Sirs:

I would like to respond to the recent NPR on the implementation of the Basel III capital standards. While the proposal mirrors the Basel III International Accord, which targeted only the largest, internationally active banks, it is sweeping in its scope and complexity and now is aimed at all banks regardless of size. This change jeopardizes the viability of the community bank model and places a tremendous additional regulatory burden on the smaller banks.

Most community banks have simplified balance sheets and traditional lending programs and I believe that imposing these new standards will place an unnecessary hardship on the class of banks that have been the cornerstone of American banking. The facts point to the larger banks as being the problem and it is time the blame and solution be aimed where it should be. In reality, 5% of the banks have caused 95% of the problems. Holding all banks to the same standard is unfair and unnecessary.

I strongly disagree with the provision to include AOCI in the capital calculation. This would introduce a tremendous amount of volatility in capital and make capital planning difficult at best. Community banks would be forced to hold additional capital to compensate for the increased volatility. Most community banks do not have the expertise to "hedge" the impact of changes in interest rates on AOCI and would therefore be at a disadvantage.

Many of the other provisions of the Basel III requirements are also unnecessary and burdensome to community banks. Changing the risk weightings is counter-productive to the Government's desire to increase small business lending, spur the housing market and improve the national economy.

I would encourage you to re-evaluate the entire proposal and exempt or restrict the community banks from these requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Hendricks", is written over a faint, circular stamp.

Mike Hendricks  
Senior Vice President  
Artesia National Bank

MH/jm