OPTIMA
BANK & TRUST

October 22, 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 proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "Banking Agencies").

Optima Bank & Trust is a locally-owned commercial bank headquartered in Portsmouth, New Hampshire. Optima Bank was incorporated in 2007 and opened for business in January of 2008. By September 30, 2012, Optima Bank had grown to just over $232 million in total assets and now has three offices in New Hampshire. We specialize in small business lending and specialized residential mortgage lending. During the past five years, Optima Bank has made a significant amount of credit available to families, home-owners, small businesses and consumers throughout our communities. At the same time we have provided safety to depositors and offered fair interest rates and low fees on all of our deposit products.

The rate of consolidation in the New Hampshire banking industry in the past two decades has been among the highest in the nation. We created Optima Bank in response to this trend because we believed that the level of consolidation was negatively impacting our communities. We believe that the customers we now serve had been neglected or in some cases entirely overlooked by the very large banks that dominate the market. We are now very concerned that continued consolidation in New Hampshire, as well as elsewhere in the country, will leave consumers and

[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.*

small businesses with increasingly fewer financial institutions to choose from, which will further limit their access to credit and continue to reduce the availability of essential financial products and services.

We are concerned that the Basel III proposals will have unintended negative consequences to community banks throughout the country. Most importantly we are concerned that the proposed rules will have unintended macro-economic effects that will greatly exacerbate the consolidation of the banking industry throughout the United States. We believe that this will be detrimental to consumers and small businesses and have a significant negative impact on the economy of our nation.

Among the troubling issues in the Basel III proposals is the proposed inclusion of other comprehensive income ("OCI") in regulatory capital. Two decades ago, when the concept of OCI was introduced through changes in accounting rules, the Banking Agencies were wise to exclude OCI from regulatory capital, understanding that the volatility of regulatory capital that would occur during periods of changing interest rates would de-stabilize the entire banking industry. The Banking Agencies also understood at that time that the inclusion of OCI in regulatory capital was unnecessary, as it would not add anything meaningful to the transparency of an institution's financial condition.

The complexity of the Basel III proposals, combined with the volatility of regulatory capital that would be introduced by the inclusion of OCI in regulatory capital, will have the unintended effect of forcing well-managed community banks to maintain capital levels well above the levels actually required by the proposed rules. This will have several unintended, but very predictable, negative consequences to the community banking industry:

- First, higher-than-necessary capital levels will have the direct effect of reducing the return-on-equity that can be generated by community banks, which will make investing in community banks less attractive to investors relative to other investments. So at the very time when virtually all community banks will be in need of additional capital, raising that capital will become significantly more difficult or impossible.
- Second, since raising additional capital will be more difficult or impossible, higher required capital levels will force many community banks to restrict their growth by reducing the amount and types of lending they conduct, which will have the direct effect of restricting access to credit for small businesses and consumers throughout the United States.
- Third, higher-than-necessary capital levels and complex capital standards, combined with other complex and unnecessary regulatory burdens, will force many otherwise well-capitalized and well-managed community banks to seek to be acquired by larger institutions. This will be detrimental to consumers and small businesses and have a significant negative impact on the economy of our nation.

The extremely complex standards that are outlined in the Basel III proposals should not be imposed on the US community banking industry. The Basel III standards were developed with very large, internationally active institutions in mind, and it is not necessary or desirable as a matter of public policy to impose those standards on traditional community banks. The existing capital standards that have been in place for the past two decades are fundamentally sound and have served the Banking Agencies and the United States community banking industry well.

If implemented as currently proposed, the Basel III proposals will have far-reaching and irreversible unintended consequences. We respectfully recommend that the Banking Agencies abandon the Basel III proposals entirely, or at the very least, provide a complete exemption from the Basel III proposals for traditional community banks that do not engage in significant international banking activity.

Thank you for your consideration of our comments.

Sincerely,

Daniel R. Morrison
Chairman, President & CEO
Optima Bank & Trust Company