OLD LINE BANK

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October 19, 2012

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

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

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

Dear Sir/Madam:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency.

Chartered in 1989, Old Line Bank is an $860 million, state-chartered commercial bank located in Bowie, Maryland. We currently have 19 branch offices all within the suburban Maryland market of Washington D.C. We are considered to be a fast- growing institution, as five years ago we were less than $225 million in assets. Our bank has grown on a conservative philosophy of growth only on the highest asset quality and credit standards. We have worked hard to reach and maintain the highest regulatory standards in safety and soundness, compliance, CRA and the related regulatory requirements. Our 180 employees are committed to helping our communities grow and are dedicated to the communities we serve and we strive to be a leader in helping each communities improve. As of September 30, 2012 Old Line Bank had Tier 1 Leverage Capital of 7.62%; Tier 1 Risk Based Capital of 10.78%; and Total Risk Based Capital of 11.52%.

I am in support of increasing the capital requirements for banks in our country to ensure that our industry is resilient in the worst of times. I know our industry has the same goal in mind. However, I do have concerns about many elements of the proposal.

I believe this structure is excessively complicated. This is another one-size-fits-all approach that is being practiced more often than not that has created many unintended consequences for community banks. Most community banks are simplistic by their own nature. We offer noncomplex deposit and loan products that by their very nature offer little inherent risk outside of prudent underwriting and credit management standards. Some community banks have as little as 20 to 30 employees and the complexity of this proposal is beyond the capabilities of many community banks. Basel III is an international agreement that clearly states it is intended to cover only large international banks as outlined in Basel II. The Agencies need to scale back this ruling to those covered companies and must develop a more simplified capital enhancement approach.

The requirement of recognizing unrealized gains and losses on available for sale securities, reported through OCI, will have substantial and damaging impact to our capital accounts. Old Line Bank has a $163 million investment portfolio comprised of U.S. treasuries, U.S. Agencies, GSE-issued MBS products and high quality municipal bonds. In the case of our bond portfolio, the impact of a 300 basis point rate increase would not only wipe out our current earnings but would severely erode our capital structure. As applied at September 30, 2012, our Total Risk Based Capital dramatically drops from a well-capitalized 11.52% to 9.40% and any further downgrade of the United States credit rating by bond agencies would further exasperate the capital deterioration. Our bank will be forced to either designate a substantial portion of the portfolio to Held to Maturity and/or to dramatically shorten our investment strategies. Liquidity will be severely compromised and bank earnings will be reduced substantially. As earnings are reduced our prudent lending must slow down as less capital is accumulated. I believe there are three unintended consequences: 1) the volatility of the capital will cause community banks to stay further away from loan-to-one borrower thresholds, 2) lending from the community bank industry may be inhibited, and 3) some institutions may take on additional loan risk to compensate for the loss of investment earnings.

The proposed risk-weighting classifications on loans appear to be double-counting risk management. The risk associated with many portfolio segments along with any delinquency must be managed through a prudent and effective ALLL management system. It is in the ALLL analysis that appropriate capital buffers need to be built that are not only balanced but weighted to specific individual bank risk profiles. I find it odd that the Agencies have not addressed the 1.25% limitation of risk-based assets in the loan loss reserve. Would not this elimination encourage banks to build reserves with pre-tax dollars in strong economic cycles to be best prepared for stressed economic periods?

The requirement for more capital with restrictions on growth, dividends, and bonuses coupled with bond volatility must have a negative long-term effect on earnings, attracting and retaining quality personnel, and capital formation. Community banks are the lifeline of our communities. The proposed changes will have serious negative impact not only on the institutions, but the communities they serve.

I fully support the concept of increase of our capital standards, but not at the expense of the community banking industry. I fear that this proposal along with many recent Regulatory and Congressional actions are leading to minimize our industry. As intended, Basel III needs to govern large complex institutions and I urge you to exempt the community bank industry.

Sincerely,

James W. Cornelsen
President and Chief
Executive Officer

JWC/smr

cc: The Honorable Steny Hoyer
The Honorable Barbara Mikulski
The Honorable Benjamin Cardin
The Honorable Donna Edwards
The Honorable John Sarbanes