September 10, 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 issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I strongly oppose subjecting community banks (under $10 billion) including my bank (The Peoples Bank Co.) to the proposed Basel III capital standards, which were originally conceived for largest internationally active financial institutions. Like most community banks The Peoples Bank is well capitalized under current capital rules and like most community banks will most likely remain well capitalized after calculating our capital under Basel III but the new capital rules will add volatility, complexity, and unwarranted expense to my bank's capital calculation. (PBC current capital ratios Tier 1 leveraged 9.33% Tier 1 risk based 17.03% Total risk based 18.18%).

I question why The Peoples Bank Co with a simple capital structure will be subjected to the complexity and volatility of Basel III. I object to the regulatory cost of this new proposal and to the reputation risk it subjects my bank to because of the increased volatility of capital. The new proposal is not an effective way of measuring adequate capital because it does not take into account the single communities or regions community banks operate in.

The volatility in the risk based capital calculation in Basel III is a major concern. Over the past 6 years our AOCI has ranged from a high of 8% of capital to a low of a -1% even though we do

[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*.

not trade in our security portfolio. The risk weightings will most certainly add volatility of our capital ratios. The volatility of capital will give the appearance of an unstable institution and be another hurdle to raising future capital. The new risk ratings will require us to hold more capital for our first mortgages when we open an 89% HELOC for the customer at the same time we are financing their first mortgage. This is a common practice to give our customers the added security of a backup line if unexpected expenses arise.

Applying Basel III to all financial institutions regardless of their size, complexity or business activities just does not work. Community banks most often operate in a very limited geographic footprint and as community banks we operate in separate and diverse communities. The Basel III risk based calculation never takes into account the very limited geographic area we operate in and generalizes that all real estate loans to be treated the same no matter if the bank is located in rural Ohio, or in highly volatile real estate markets like Nevada, or Florida, or a limited industry state's like Oklahoma or North Dakota. It is a complex calculation that wants to generalize that all real estate values are the same even though they are much different depending on the local economies we operate in.

As to the cost aspect to implement Basel III I estimated my bank will have additional accounting labor to calculate and track the different components of Basel III. Currently my data processing software does not have the capabilities to track and accumulate loans to a single borrower with 1st and 2nd mortgage, and we do not tract the additional specific loan to value ratios (<60%, 60% to <80%, etc.) required under Basel III. The propose rule will require additional cost to updated software for the additional coding to tracking, will certainly require independent testing of the calculation, and finally the proposal will increase the cost of my yearend audit in order to verify the more complex capital calculations. I estimate this all of this adds up to an additional $50,000 a year that my bank will need to expend to comply with Basel III. Now if you expand that to the 7000 banks under $10 billion to comply with Basel III, we are being asked as an industry to expend $350 million a year to implement Basel III capital rules. We are spending this valuable capital every year to fix something that is not broken in the community banking industry. If you want us to maintain more capital just raise the minimum capital requirements and continue use our current less complex capital rules, and let us use the $350 million a year to strengthen our capital.

As written, I believe this proposals would impose unnecessary regulatory burdens and cost, constraints on capital and not take into consideration the very limited geographical areas most community banks operate in. It discourages us from lending in our local communities and at a time when we are being asked to hold more capital, it will suck out millions of dollars a year out of our capital by adding unnecessary cost. Basel III will not work for community banks and doesn't provide a cost/benefit for the community banking industry.

Sincerely,

Jack A Hartings
President/CEO