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GRAND

BANK

August 27, 2012

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

Re: FDIC and RIN 3064-AD95 (Basel III NPR) and RIN 3064-AD96 (Standardized Approach NFR)

Dear Mr. Feldman:

I am writing in response to the proposed Basel III requirements that I believe will negatively impact the smaller community banks and ultimately the consumer. I have had the privilege of working for the FDIC in my formative years and running a privately held financial institution the last ten years. Besides the various onerous requirements of the Dodd Frank bill, I can't think of regulation that is more damaging to community banks than the proposed Basel III. This is a remarkably complex and cumbersome proposal, and the requirements for compliance and adherence will significantly add to an already untenable level of regulatory burden and cost for community banks.

I am very concerned about the harsh effects this proposal will have on the community banks and the negative impact on the consumers and small business owners who will face higher borrowing costs and diminished availability of both credit and bank services. There is never a good time for public policy to result in such outcomes, but given the tenuous state of the economic recovery, such seems especially counter-intuitive at this juncture.

The risk weightings, especially in the mortgage loan category, are excessive and will further chill an already challenging market. Rules already in effect and proposed , including high priced mortgages, escrow requirements, balloon note limitations, appraisal standards, additional disclosures and "zero tolerance" on the "Good Faith Estimate", among others, have significantly curtailed mortgage lending among community banks in our market, especially the "in-portfolio" loans. A number of my fellow community bankers have discussed discontinuing mortgage loans to their customers due to the new and proposed regulatory rules that attempt to fix problems that the majority of community banks did not contribute to nor participate in.

We currently offer a number of the in house mortgage products that the proposed legislation is attempting to require banks to hold a higher level of capital towards. We have a very affluent customer base that prefers to have more creative bank products and I am still trying to understand why a credit that has a 25% loan to cost and value should carry up to a 200% risk weight if it is interest only but if I make the same loan at a 79% loan to cost and value based on a 30 year fully amortizing note would only have a 50% risk weighting. Common sense would tell me that the most prudent investors in a financial institution would prefer that their institution make more of the first scenario than the second scenario.

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Additionally, the Basel III proposal seeks to address the excessive leverage both on and off the balance sheet that contributed to the recent economic crisis by establishing a high quality capital base made up primarily of contributed equity and retained earnings. However, the proposed Basel III definition of the going concern capital, or Tier 1 capital, includes accumulated other comprehensive income (AOCI), which for community banks is primarily derived from fair value measurements of securities held available-for-sale (AFS) on the balance sheet. The inclusion of AOCI in Tier 1 capital will introduce volatility to the high quality capital framework and could inaccurately depict a weak capital position for well capitalized community banks in periods of global financial distress or rapidly rising interest rates.

We manage the investment securities in our investment portfolio and classify them as AFS and we do not hold them for short-term trading gains and losses. These securities are held to collect cash flows during the effective life of the instrument without regards to short-term gains and losses driven by external market parameters such as interest rates or credit spreads. Inclusion of AOCI in the Tier 1 calculation for the bank introduces volatility to regulatory capital calculations based on market forces that are inconsistent with the nature and objective of the bank's investment holdings. The temporary changes in fair value in Tier 1 capital create unpredictable and inaccurate fluctuations in capital cushions that have the potential to weaken the bank's appearance of sufficient capitalization, especially in periods of increased volatility. Due to the current low interest rate environment, any sizable shift in the yield curve would result in an immediate loss of Tier 1 capital for securities classified as AFS. Conversely, a steep drop in the yield curve or an extreme tightening of credit spreads would give rise to immediate Tier 1 capital gains that would artificially create a capital cushion that does not accurately represent the bank's ability to absorb capital shocks. Bottom line, reliance on these unrealized gains and losses as high quality capital measures introduces the risk of inaccurate capital adequacy conclusions.

Overtime my bank will be forced to abandon attractive securities investment strategies that benefit its shareholders and local communities simply because it is impractical for the bank to hold a large incremental capital cushion to protect against increased volatility in fair value measures. This will have a direct impact on all community banks earnings and the demand for local and regional bond issues as liquidity for these asset classes dissipates. The framework of this proposal further penalizes community banks by catering to the largest financial institutions that have the resources and scalability to develop complex hedging strategies with interest rate and credit derivatives to hedge volatility in shareholders' equity. These very strategies contributed to the financial meltdown of the last five years.

In essence, the new requirements would mean AFS securities would be treated like trading securities with regulatory capital adjustments required each month as securities values change. This asset bias accounting was adopted by the Federal Reserve and almost adopted by the OCC until "someone" pointed out its obvious flaw. An example of this is Bank A might have 100% of assets invested in short Treasuries or Agencies designated as AFS and Bank B might have 100% of assets invested in 20 year fixed rate loans. If rates spiked up, Bank A could be deemed capital deficient and closed while Bank B had no earnings or capital impact from the rate changes. FAS 107 and FDICIA 305 offer two proven methods for calculating economic value of equity which is balanced and considers all assets' and liabilities' values. This Basel III proposal can only encourage banks to have less flexibility in asset management when more flexibility and capital is required.

Many regulations are written after a financial crisis and in many circumstances the pendulum is moved to far after such an event. The proposed Basel III being pushed down to the community banks when in fact most did not create the financial meltdown is a prime example. Many community banks have invested their own family money in their banks unlike the larger institutions that access the public

markets for their capital and take inappropriate risks. From my experience, people tend to be a better steward of their own funds when it comes to risk and manage it much better than those who do not use their own funds.

In conclusion, this proposal has a very damaging effect on community banks as we do not have the same access to capital as larger banks yet we tend to be a better steward of our capital. In my humble opinion, a better avenue of addressing the banking industry is to look at various aspects of the Glass-Steagall Act of 1933 that separated the banking, securities firms and insurance agencies. This would have the potential to rein in the risks some of the larger banks take with depositor funds and require them to take the risks with their own funds which in return would protect main stream America as well as the FDIC insurance fund.

Sincerely,

Lee M. Dinkel
President and CEO