September 5, 2012

Mr. Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Mr. Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: Proposed Rulemaking on Minimum Regulatory Capital and the Standardized Approach for Risk-weighted Assets
Basel III Federal Reserve Docket No. R-1430; RIN No. 7100-AD87 and Docket No. R-1442; RIN No. 7100-AD87
Basel III FDIC RIN 3064-AD95, RIN 3064-AD96
Basel III OCC Docket ID OCC-2012-0008 and Docket ID OCC-2012-0009

Dear Sirs:

The Community Bankers Association of Illinois (CBAI), which proudly represents approximately 400 Illinois community banks, welcomes this opportunity to comment on the

Proposed Rulemaking on Minimum Regulatory Capital (Basel III NPR) and the Standardized Approach for Risk-weighted Assets (Standardized Approach NPR) (Collectively the Capital NPRs or NPRs). The following contains our views to date. We are continuing to analyze the proposed Capital NPRs and are receiving input from our member banks on a daily basis. We plan to share our additional observations and recommendations by the October 22nd comment period deadline.

The regulators' stated purpose of the NPRs was to strengthen the quality and loss-absorbance provided by capital and to enhance banks' abilities to continue to function during times of financial stress. CBAI, however, was extremely disappointed when the regulators approved imposing the requirements contained in the NPRs on community banks. We believe the NPRs are misguided and counterproductive to fostering a reasonable regulatory environment for the community banking profession.

CBAI strongly encourages the banking regulators to exempt community banks from the proposed implementation of the Capital NPRs and allow community banks to continue to operate under Basel I capital requirements.

Basel III was originally designed to prevent another financial crisis and to only apply to the largest, systemically important, and internationally active banks. Community banks did not engage in the reckless behavior that contributed to the financial crisis and subsequent economic downturn. Community banks have lower risk profiles because they operate under a relationship-based business model. Their less complex business model and lack of significant interrelationships is not reflected in the one-size-fits-all approach to the capital standards and asset risk-weighs in the NPRs. Individual community banks pose no systemic risk whatsoever; therefore, these requirements should not apply to community banks.

Furthermore, the exemption for credit unions ignores their striking functional and operational similarities with community banks. These NPRs will force community banks (but not credit unions) to increase compliance staff to compute and stress test complex risk weights and capital calculations to assess current and future compliance with the requirements. This represents an unnecessary additional regulatory burden on top of an already stifling regulatory burden faced by community banks on a daily basis.

Imposing complex and excessive capital standards and risk weights will also threaten the nation's fragile economic recovery and limit lending, investments, and Main Street credit availability. If implemented, these NPRs will result in adverse consequences to consumers, municipalities, and the communities our members serve.

Including accumulated other comprehensive income (AOCI) and losses in regulatory capital will dramatically increase capital volatility and require community banks to hold capital substantially in excess of regulatory requirements to maintain consistent capital compliance.

The NPRs will significantly alter the capital treatment of mortgage-servicing assets, deferred tax assets, and trust-preferred securities (to name a just few), which may require community banks to seek additional capital. Community banks do not have ready access to the capital markets, and subjecting them to complex capital measurement systems that cause capital ratios to fluctuate dramatically is an extreme disservice to a profession that is vital to our consumers, communities, economy, and our nation.

CBAI appreciates this opportunity to share our initial observations and recommendations regarding the Basel III NPR and the Standardized Approach NPR. **We strongly encourage the banking regulators to exempt community banks from the proposed implementation of the Capital NPRs and allow community banks to continue to operate under Basel I capital requirements.**

If you have any questions or would like any additional information, please do not hesitate to contact David Schroeder, Vice President Federal Governmental Relations, at (847) 909-8341 or davids@cbai.com .

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations