From: Steve Baggerly [mailto:SBaggerly@bopguymon.com]
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To: Comments
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The minimum capital rules should not apply to small community banks if they can meet the current requirements. Because of the volatility in interest rates and credit spreads, with the addition of the proposed rules, capital planning will be very difficult. The only way small banks will be able to add capital, since they do not obtain capital in the markets, will be primarily through retained earnings. With interest rate volatility and widely varying interest margins, adding capital through retained earnings will be most difficult when it might be needed most. Because of the interest rate risk in the security market, if the AOCI is added into capital, capital may vary by huge percentages as the interest rate changes the value of the securities; as a result many community banks will see erosion of capital under the proposed rules just because interest rates have moved up. That effect on capital will cause community banks to not hold securities which will impact liquidity and will at the same time depress market value for the securities.

Please consider at least exempting banks under $500 million in assets from the proposed rules. Otherwise, the proposed rules should not be adopted.

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