BankStar financial

September 24, 2012

FDIC
550 17th ST NW
Washington, DC 20429

Subject:
FDIC: "Basel III FDIC RIN 3064-AD96, and RIN 3064-D97

Federal Reserve Board: "Basel III Docket No. 1442
OCC : "Basel III OCC Docket ID OCC-2012-0008,0009 and 0010

Gentlemen:

I write this letter to express my concerns over the new Basel III capital requirements proposal. As a small Community Bank in rural South Dakota, of the Unites States of America, we serve a client base of farmers, small businesses, blue collar workers and retired citizens. Our customers are the little guys that most politicians and big businesses don't seem too concerned about. And it seems small community banks are in this same boat. We had a loan to deposits ratio of 93% on our bank's last call report. Which will mean something to regulators, but to folks who don't know what this means it's says we are lending our deposits out to creditworthy borrowers not just setting on the funds. We are trying to keep our local economy going, and this is what fuels the national economy.

It would appear to me that the regulations in Basel III are geared towards the 20 to 50 largest banks in the country (banks $50 billion and greater in total assets). Banks that have international operations and trading desks where they trade securities all day everyday and it's part of their normal operations.

Accumulated Other Comprehensive Income (AOCI)
The AOCI (Accumulated Other Comprehensive Income) that will be required to flow through to regulatory capital from market swings in interest rates will create problems. In having securities AFS for liquidity, most banks may have to sell AFS securities and keep very short duration securities to reduce market swings but this will reduce earnings significantly. Market swings in interest rates would cause swings in the bank's capital that could cause a bank to move from well capitalized to poorly capitalized in the short time it takes interest rates to move. Capital could drop by 15% to 30% or more in the matter of a few months. This will cause banks to have to hold extra reserves in capital to allow for this and this will tighten lending standards and raise costs to consumers and small businesses. Large Banks who are publicly traded on the stock market can raise capital much easier when interest markets move. Most community banks may not be

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able to raise capital, thus forcing regulators to close or sell them. Most community banks raise capital through earnings retained. It will take many years to build capital to the levels that are in the Basel III regulations.

Risk Weights

Raising the risk weights on residential loans generally will impair home financing by raising borrowing rates and limiting borrower access to financing. The complexity of the mortgage risk weights based on loan-to-value ratios will create a regulatory burden for community banks. Second mortgage liens should not carry 150 or 200 risk weights if our country wants an economic recovery. Raising risk weights for balloon mortgages penalizes community banks that attempt to mitigate interest rate risk in this manner. The regulations to penalize high LTV loans with credit-enhancements will definitely curb future lending. The higher risk weights for nonperforming loans only duplicates the purpose of allowance for loan losses and are pro-cyclical. Our bank currently offers Home Equity loans, with these regulations we are seriously asking ourselves is this a product we can continue to offer.

Trust Preferred Securities

We know the regulation proposal conflicts with the intent of the Collins Amendment. The banks that have trust preferred securities will be unable to replace common equity and regulators will be forced to take action against these banks.

Allowance for Loan and Lease Losses

Allowance for loan losses inclusion in total capital should not be capped at 1.25% of assets and especially if the regulations will require higher risk weights for nonperforming loans. Some if not all of the allowance for loan losses should be included in tier 1 capital since it represents the first line of defense against capital-absorbing loss.

Implementation Timeline

The Timeline is too aggressive for community banks to meet the minimum capital requirements. The proposed regulation assumes no further decline in interest rates or future adverse economic conditions during the phase-in period. Limited opportunities to build capital will prevent community banks from rapidly meeting and maintaining conservation buffers.

While this proposal mirrors the Basel III International Accord, which targeted only the largest, internationally active banks, it is sweeping in its scope and complexity and its impact on all U.S. banks.

This forces community bank shareholders to seek alternatives to further investment as new regulatory burden hampers growth in lending and community banks are being told to raise more capital.

This proposal is not tiered and does not provide any exemptive relief for small community banks with simplified balance sheets and customary lending activities.

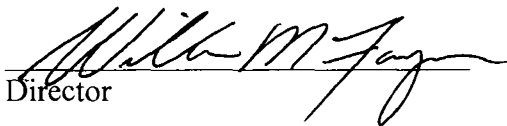
This proposal needs to make a distinct difference between Capital Requirements for Larger Banks ($50 billion and greater total assets) and Small Community Banks. Look at

how each group raises capital and the risk each group presents to the entire nation and economy. Some allowances must be made between Wall Street and Main Street.

When looking at how each group raises capital, allowances must be made between raising capital on Wall Street versus raising capital from earnings. There must be an adjustment to the timelines with in each group and each tier of banks.

The goal here is to increase capital in all banks across the country. This is a very worthy goal however, an approach must be taken that does not create undue hardship on consumers, and small businesses. I sincerely hope the regulators of our nations banks will reach an approach to increasing capital that is well thought out and planned with good commonsense.

Thank You



Director