From: David Woodcock [mailto:david@farmerstrust.com]
Sent: Tuesday, August 07, 2012 1:48 PM
To: 'David Woodcock'; Comments
Cc: Bean, Bobby R.
Subject: RE: FDIC Proposed Capital Regulation RIN 3064-AD96

Thanks for allowing us to comment. I want to address 2 specific issues of the Standardized Approach NPR. This is a follow up to my comments send July 6, 2012.

We are a $300 million community bank in rural Iowa.

Standardized Approach NPR – RIN 3064-AD96 -- FIL-27-2012 – Proposed Changes to risk Weighted Assets

First – you are proposing higher risk weights on past due loans and other loan categories, while still capping a portion of the ALLL at 1.25% of risk weighted assets for the capital calculation. I do understand our risk weighted assets will increase under the proposal and therefore we will get to use more of our ALLL in the capital calculation, however, currently our ALLL is about 2.5% of risk weighted assets. The ability to use all of the ALLL in the risk weighted capital ratio is much better than the small advantage received by using the excess ALLL to reduce risk weighted assets.

If you plan to increase risk weights, then you need to remove the cap on the portion of the ALLL used in the capital calculation. I think you would rather a fully funded ALLL with an excess than higher risk weights. If you plan to retain the 1.25% cap, then you need to consider backing off risk weights.

Second – appears loan principal payments will not be allowed when figuring loan to value ratios on mortgage loans. Sound like the loan to value at the time the loan is made remains for the life of the loan unless we have the property reappraised at our expense. Any day, I would rather have principal payments than an inflated appraisal in an environment of increased home prices.

We make a lot of mortgage loans, and these higher risk weights based on high loan to value will cause us to rethink our lending position. Higher risk weights will limit mortgage lending in the banking industry, when it is needed the most.

Many times we will make a higher loan to value 1st mortgage on a single family home, only to be reduced to a lower loan to value once their previously owned home sells, and the proceeds are applied to the new loan. In this case, the original loan to value should not stay at the higher level for the remaining life of the loan. Also, in our area, the wage scale if below the state average and therefore affordable housing is an issue. When someone builds a nice new home, and there are no comparables, we as the lender end up with a high loan to value mortgage loan or hold a larger second mortgage. We have never lost a dime on these loans, however, the new risk weights are very concerning to us. We need the ability to originate loans in a flexible manner that meets our specific market and the needs of the area.

Therefore, principal payments and new appraisals should both be considers as ways to lower original loan to values over the life of the loan for risk weighted purposes.

Again, thanks for listening and I hope these comments are helpful.

Best regards, Dave

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