September 25, 2012

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

RE: FDIC - Basel III RIN 3064-AD95, RIN 3064-AD96

Dear Mr. Feldman:

My name is Douglas E. Parrott, President/CEO of State Bank of Toulon, Toulon, Illinois and the FDIC is my primary regulator.

Our bank is in a rural community of 1,200 people, three branches within a 15 mile radius of Toulon and is very much a rural agricultural bank by nature but also very active in residential mortgage lending in our area.

I have grave concerns with the new Basel III NPR's concerning our capital ratio determination once I received the calculator this morning.

First and foremost, on the Basel III Approach Values, we would now be responsible for including the AOCI or Mark to Mark accounting on our bond portfolio in our Tier I calculations. While I agree in the current rate environment this only "adds" regulatory capital, when rates DO decide to go up again and they will of course at some point, it could mean a sizeable depreciation in the mark to market due to our sizeable dependency on bonds and securities. Most prevalent in our calculations would be the amount of mortgage backed securities that we currently hold at a premium. Even a modest change in rates could mean a 2-3 point reduction in our Tier 1 capital and a severe penalty assessed by you our regulator. As a Subchapter S bank and dependent on quarterly dividends and tax distributions to shareholders, this would severely limit us in every way with the added "capital buffer".

Secondly, on the Standardized Approach Values NPR, we would have to assign a new value of risk weighting to our in house residential mortgage loans that we do on a five year balloon basis, strictly for protection against interest rate risk. They would now be assigned a Level II rating that would double our risk from 50% currently to 100% in Basel III. While this doesn't affect us considerably in the current way we figure capital ratios, it will in Basel III and it seems a total reversal of why we were asked and encouraged to write balloon residential real estate loans in the first place, as a risk avoidance tool. This increase in risk weights at a minimum impacts our ability to lend at all. I can assure you that if community banks are unable to write 3-5 balloon residential real estate loans, NO ONE will make them, in essence eliminating people that would qualify from consideration for loans going forward. What I think that you are trying to eliminate is the big banks and mortgage brokers putting homeowners in loans that have lower payments that are more attractive for customers but creating a large balloon at the end of the term. That is exactly what we are NOT doing on our real estate loans. This will not be good for the local consumer, especially in our markets locally, in effect, eliminating our wish to provide that service to our borrowers due to the severe scrutinization from regulators on Basel III.

In this NPR, it also assigns a 20% risk weight to lines of credit due in less than one year that currently is not assessed. As an agricultural bank, one of our biggest percentages of loans is lines of credit for farm operating loans to farmers, most typically due annually. As inputs grow larger, our loans are also growing in size and could put a real imposition on our risk weighted capital ratio during the last half of any and all calendar years.

I do want to thank you very much for the opportunity to comment on the proposed regulation on the table and ask that you grant our request that **all community banks be exempted** from this Basel III proposal. My phone number at the bank is 309-286-2861, cell 309-238-2861, and email address dparrott@statebankoftoulon.com for any questions or need additional information.

Sincere thanks
/s/
Douglas E. Parrott
President/CEO
State Bank of Toulon