October 15, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Dear Mr. Feldman:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I would like to start by thanking the Agencies for producing the Bank Estimation Tool spreadsheet. I found it extremely helpful for me to understand the potential impact of the NPRs on my institution.

As I look at the asset weightings it appears that the Agencies are dictating which markets they believe to be in their best interest. Unfortunately, this may or may not be in the best interest of each institution or its local market. This does not level the playing field for all. On the contrary, it assigns winners and losers based on their asset mix and market niche. It also encourages non-bank competition within certain sectors.

At a time when all of the Agencies are encouraging us to be more forward looking in our risk analysis this system is reactionary. The weighting is a battle plan for the last war, not the next. It certainly has the potential for changes in weighting based on future macro or micro events.

It is particularly troubling that the Agencies would put out such a far reaching proposal without knowing what the impact will be on our community banks. The majority of community banks do not track the data necessary to calculate their new Risk Weighting on 1-4 Family Residential Real Estate. If the banks don't have the data and therefore can't calculate their proposed capital levels then how can the Agencies possibly know the effect?

I find it difficult to believe that any asset group could be risk weighted equal to or higher than the Past-Due and Nonaccrual Loans. What could possibly hold more risk than those? Assigning a 1250% weighting, or dollar for dollar capital requirement, is just a back door way of telling an institution that a particular asset is worthless and should be written off entirely. At least when an examiner suggests it we have the opportunity to produce evidence to defend our position.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

From a management perspective of a small institution this regulation will be extremely difficult and time consuming to implement and follow. Just learning the intricacies and their applications will take an inordinate amount of time. Adequate staffing is certainly a concern.

We have offices in two small communities, each with populations under 1,000. We are an agricultural bank and hold only 15% of our total loans in 1-4 Family Residential Real Estate. All of which are Category II loans, as they are all written with no more than 5 year balloons. Going forward we will certainly need to be more limiting in writing these credits. Unfortunately, this will push more toward the secondary market with their related higher fees or into seller financing. It will certainly have an effect on the home improvement market.

The largest effect that I see for our bank will be in the securities portfolio. Our securities, all of which are Available for Sale, account for 13.06% of Average Assets compared to our peer group at 19.36%. The duration of these securities is 2.27 years, which is relatively short. However, with a 200bp rise in rates our current Total Capital Ratio falls from 12.27% to 10.31% thus limiting our Conservation Buffer Maximum Payout. A 300bp rise wipes out an entire years' worth of earnings at 1.00% ROA reducing our Well Capitalized PCA Category to Adequately Capitalized and limits our Conservation Buffer Maximum Payout to 40% of the prior four quarters' earnings. Unfortunately, 40% of $0 is still $0 and will certainly affect our Sub-S stockholders' ability to pay their quarterly tax obligations. Those institutions with less loan demand and, therefore, more securities will feel a more dramatic effect.

As a small institution we have fewer alternatives to deal with this type of situation. Because of this I believe many securities portfolios will be managed considerable different than they are today. A shift in more Held to Maturity securities or securities with shorter duration may address the fluctuations of the market. However the former will raise liquidity issues and the latter affects earnings. I wonder what effect this will have on the Municipals market.

As a community banker I foresee that some commercial real estate endeavors that may be in the best interest of the community will simply not happen because the local banker is managing the institution to ratios rather than the needs of the community.

Sincerely,

Charles J Robasse

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