

October 23, 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 Sir:

Thank you for the opportunity to provide comment on the Basel III proposals¹ 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 represent the Farmers Savings Bank, a \$90 million bank located in Keota, Iowa. I am writing to express my concern about both the Basel III proposal as well as the “Standardized Approach” proposal. These proposed rules are more appropriate for large, complex financial institutions competing in a global marketplace that do not know their customers as well than they are for a small bank like ours competing in our local market. I understand the importance capital strength plays in the ability of banks to weather the storms of economic downturns- my first years of being CEO of this organization were in the mid-80’s in the heart of the agricultural crisis that resulted in the failure of many agricultural banks. We were able to survive that very difficult time because we had strong capital and the ability and willingness to work through the problems with our customers and many of our customers had the character to want to work through the problems as well.

Were we under the proposed Basel III rules, that task would have been much more difficult. The proposed requirement that all unrealized gains and losses on AFS securities flow through to regulatory capital would introduce significant volatility into capital calculations. In this historically low interest rate environment, the inevitable rise in rates will result in a significant decline in regulatory capital as the unrealized losses flow through to tier 1 even though our tangible equity may actually remain constant. In order to keep our regulatory capital ratio at a satisfactory level, we may have to either shrink our balance sheet precisely at the time the economy is improving or reclassify our security portfolio to HTM. That would result in less management flexibility to manage the bank’s investment and loan portfolios through different interest rate and economic

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.*

cycles. If our regulatory capital were to drop, we may not have the flexibility we need to work out the problems with our customers. We would respectfully ask that this section of the proposal be eliminated.

Also of major concern is the proposal to increase risk weights on delinquent loans. While we employ careful underwriting and are fortunate to have very few delinquent loans at the moment, we have experienced significant drought conditions this year and many of our customers will be using crop insurance proceeds as opposed to crop sales to service their debt this year. We will need significant moisture to be able to grow a normal crop in the 2013 growing season or our customers may face difficulty in servicing loans in future years. The proposal drastically increases risk weights for past due loans. We already set aside reserves for delinquent loans in our ALLL calculation, and this proposal would require us to essentially double reserve for these loans. Risk regarding past due loans should continue to be managed through loan loss reserve guidance and not by layering on additional capital requirements. We also ask that this also be eliminated from the proposal.

I have only addressed two of the onerous requirements of this proposal in this letter. To fully comprehend the entire proposal, we would likely have to hire consultants to implement this proposal, since I have only 14 members of my staff. As indicated earlier, I understand the overall goal of increasing capital in the banking system. I believe that these rules are designed for the large complex financial institutions rather than for small community banks such as ours. I urge the repeal of this proposal for banks under \$1 billion in assets and allow us to continue to serve our community and strengthen our local economy as we have done for nearly 120 years.

Thank you for allowing me to comment on this proposal

Sincerely,
FARMERS SAVINGS BANK

Charles W Helscher,
Chairman, President