October 17, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

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

Ladies and Gentlemen:

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 attended a Bank Directors seminar this month that focused on the "Future of Community Banks" sponsored by the Conference of State Bank Supervisors and the Graduate School of Banking. Although I have not attended these conferences in the past, given the proposed regulatory changes being considered, I felt it necessary to hear what is proposed. I am the CEO of Belt Valley Bank, which is a $67 million dollar bank located in Belt, MT and opened in 1936. We have one main office with no branches or holding company and operate as a C Corp with local ownership.

During the seminar, all of the speakers touched on the subject of Basel III and the consequences for community banks should it be implemented as proposed. The final day included a more detailed explanation of the proposed changes along with examples that will affect community banks such as ours.

[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.*

Historically, Belt Valley Bank has always been "Well Capitalized" as defined by the regulatory agencies. Our Tier 1 leverage ratio is currently 10.32% as of June 30, 2012. In the past, we have been as high at 15%. The Bank has been managed and operated as *THE* financial resource for our small community. Basel III, if implemented as proposed, will change all of that.

As a small community bank, we are unable to compete with larger banks on interest rates offered for certain products such as long term real estate loans as we can not "lock" rates for a long period of time as all of our loans are kept in-house. We do not sell any of our loans. Instead, our lending is focused on Agricultural and Commercial industries as well as niche lending for consumers for products that don't quite fit the residential mortgage secondary market. Our loan portfolio consists of approximately 50% Ag /Ag real estate loans, 20% Commercial / Commercial real estate and the balance is consumer real estate lending. Our consumer real estate lending consists mainly of construction loans for primary residences, mobile home lending and other nonconforming real estate loans that contain balloon features to protect our repricing ability. Although these loans don't qualify on the secondary market, they are still a necessary financing option in our rural communities.

The proposed risk weight framework under Basel III is too complicated and will be an onerous regulatory burden that will penalize community banks. Additionally, higher risk weights for balloon loans will further penalize community banks for mitigating interest rate risk in their asset liability management. Our bank would be forced to originate only 15 or 30 year mortgages with durations that will make our balance sheets more sensitive to changes in long term interest rates. We would have no choice but to exit the residential loan market entirely or only originate those loans that can be sold to a GSE, assuming we can find an outlet as the loan pools required for most sales exceed our annual lending for these products. In addition, we could not justify making significant software upgrades and incurring other operational costs to track mortgage loan to value ratios in order to determine the proper risk weight categories for mortgages. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans. A "one size fits all" approach will not work in this case.

Thank you for the opportunity to comment on this proposed rule and please consider the negative impact it will have on rural communities such as ours.

Sincerely,

Bruce A. Hoyer

Bruce A. Hoyer, CEO