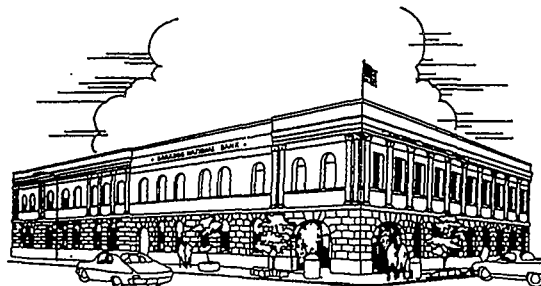


THE BARABOO NATIONAL BANK

(608) 856-7708

BUILDING
WITH BARABOO
SINCE 1857



101 3RD AVENUE • P.O. BOX 50 • BARABOO, WI 53913

September 5, 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 proposals¹ that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the “banking agencies”).

The Baraboo National Bank has served the State of Wisconsin, providing our community with financial services through our 16 branch locations since 1857. Our focus has always been on economic development and business growth by providing deposit and lending products to meet the needs of our customers. The proposed changes in regulations, specifically Basel III would limit what we can do to help the communities we serve. A few of those issues are:

- Our \$750,000,000 bank has a balance of \$67,000,000 investment securities. The average life of the investment portfolio is less than two years. We rarely sell any of these investments prior to maturity, but we classify the investments as AFS for liquidity purposes. The credit quality of the portfolio is very high, US Treasuries, Municipal GO’s and CMO’s.

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.*

One of the major issues that our bank has if Basel III is implemented is that if there is a 3 percent rise in interest rates, our investment portfolio market value would probably decrease by up to \$2,500,000. Under the new Basel III rules our bank's capital would decrease by \$2,500,000 even though the investments will never be sold, and at maturity we receive payment in full.

- Our bank originates many 15 to 30 year fixed rate Freddie Mac 1-4 family mortgages in our local communities. Because of the interest rate risk, we sell all of the loans to Freddie Mac, but we keep the servicing. The current balance of the Freddie Mac serviced loans is about \$260,000,000. Each quarter we are required to calculate the current market value of the Freddie Mac serviced loans based on current interest rates and projected repayment assumptions. Under the Basel III proposal, once the value of our servicing portfolio would reach a certain percentage of our capital, it would have to be deducted from capital. Since we estimate a current market value of the servicing rights each quarter, we do not understand why there should be a limitation placed on the market value that can be included in the bank's capital.

At this point in the comment process, it is very difficult to determine how other factors in the Basel III proposal will affect our banks ability to continue to serve our community and our customers. Our concern is that further limitations and regulations will continue to reduce our ability to promote economic growth to the communities we serve and possibly kill the individuals hope of the American dream.

Thank your for considering these challenges when reviewing Basel III.

Sincerely,



Merlin E. Zitzner
Chairman and CEO
The Baraboo National Bank