DAIRY STATE BANK
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October 9, 2012

VIA ELECTRONIC DELIVERY
Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
comments@FDIC.gov
RIN 3064-AD95 and RIN 3064-AD96

RE: Regulatory Capital Rules: Implementation of Basel III

Dear Mr. Feldman:

Dairy State Bank is a $425 million community bank headquartered in Rice Lake, Wisconsin serving eight communities throughout northwest Wisconsin. As a community banker and the CEO of Dairy State Bank, I am disturbed over the broad and complex methodology that the FDIC, the OCC and the Federal Reserve are suggesting in the Basel III proposal. I respect the fact that regulatory bodies like to see more and appropriate capital in the system to absorb risk, but this proposal is going to create a sizeable hardship on community banks for understanding, implementation and compliance without, in my opinion, providing a better, safer banking system. If it is more tangible capital that is wanted, simply raising the current capital expectations to be phased in over a reasonable period of time would create a better result than the creation of a complex calculation that will lead itself to many hours of implementation, monitoring and review for us and you. Most community banks are already low risk to the financial system because we are smaller in size and we have the tendency to have higher levels of capital. That is my basis for a general objection to the Basel III proposal. While I have a general objection to the proposal, there are a few items within the proposal I feel are particularly objectionable.

**Accumulated Other Comprehensive Income (AOCI)**

As proposed, all unrealized gains and losses on AFS securities would flow through to common equity tier 1 capital. If rules are finalized as proposed, with the inclusion of unrealized losses on AFS securities in common equity tier 1 capital, rising interest rates would put pressure on our capital levels. While we have a very solid capital level today and could absorb a lot of change, due to the lack of current loan demand we have a very sizeable security portfolio. That sizeable portfolio is the result of our bank continuing to serve deposit customers even though there has been a significant reduction in loan demand in the area. If AOCI adjustments become reality, a

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strategic move could be to reduce our investment portfolio and that would have to be done by discontinuing service to local deposit customers.

Additionally, as a community bank, we have been an investor in our local government entities. If AOCI adjustments become a part of the capital calculations it may discourage us from holding long-term municipal securities due to the interest rate and capital risk of these assets. The shortening of asset duration may, in fact, lead to less profit and a lower return which is our primary form of capital creation.

**Capital Risk-Weights for Residential Mortgages**

The Agencies' proposal to have up to six risk weights on 1-4 family residential mortgage loans seems excessive without showing empirical evidence to substantiate the need to increase from the current capital requirements. If data suggests the current 50% risk weight needs a change, consider that versus creating a complex system that will be open to interpretation and mistakes. The fact there is currently no grandfather treatment for mortgages currently on the books is another concern. This would require an extensive review of mortgage files to determine the appropriate category and LTV ratio for each mortgage. This will be a sizeable task and one that would need to be completed when our resources are already stretched working to implement the other regulatory changes that are taking place.

Based on my comments above, I would request the Agencies withdraw the proposed capital rules as presented and perform a study and analysis of the impact of this proposal to the industry and to the service of our customers and communities. I recognize the Agencies are concerned with keeping adequate capital in the industry to absorb risk, but the complexity of this proposal is not necessary for community banks that do not deal in the same types of transactions that the large and complex international institutions do.

Thank you for the opportunity to comment on the Agencies proposal.

Sincerely,

Michael R Bock

Michael R. Bock
CEO

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