From: Oak Creek Valley Bank <OVCB-oakcreek@ocvbank.com>
Sent: Sunday, October 21, 2012 9:18 PM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96 and RIN 3064-D97

October 21, 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

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals 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").

As a small town community banker in the heart of agricultural country, Nebraska, I am writing to express my severe concerns and reservations with the Basel III capital standards being applied to community banks. We are a $60,000,000 asset size bank which does not engage in complex transactions or investments (derivatives, etc.).

We were led to believe these new standards were being designed for too big to fail and internationally active financial institutions and those designated as systemically important. That is where the regulation and oversight changes should end! Any bank under 1 billion dollars and certainly under 100 million dollars should be exempt.

I simply do not have the time or energy to read everything necessary to figure this regulation out. However, I do know that if applied to my bank and other small town community banks under 100 million dollars, it will do more harm than good. It will no doubt have many unintended consequences (mostly negative) that you and other regulators have not even considered or discovered yet. I do not believe that in today's complex market place you can comprehend the number of different hats a community bank president must wear. Spending time applying such complex regulations with so little relevance clearly causes management at smaller institutions to take their eye off of the ball and what is really important to our institutions from a safety and soundness perspective.

Upon my review, I am certain this regulation will have a chilling effect on our bank's mortgage lending. We currently do many in-house variable rate loans which have a 15 year maturity, but a 20; 25 or 30 year amortization. My understanding is that these loans (every one we have on the books) would be treated much worse under the new standards – for no reason. Regulators are lumping all balloon loans and variable rate loans together and treating them as if they are the same – THEY ARE NOT!!!! My institution has not foreclosed on a single home loan in over 20 years. Under what possible theory should these loans suddenly become "higher risk"? I will gladly discuss with any regulator willing to listen, how and why such loans (originated/serviced and owned) at a small town locally owned bank should be viewed through a different lens than the cookie cutter mortgage broker originated and sold variable rate and/or balloon loans. Our variable rate loans are not tied to an external index, and, therefore, give us significantly greater flexibility to work with our customers with whom we have a much greater familiarity.

If what I have read is accurate (balloon mortgages and/or home equity credit lines will be risk weighted between 100%-200% and unsecured credit card debt will be at 100%) there is something seriously wrong with this reasoning. It is non-sensical if this risk rating is applied to rural Nebraska banks and their home loans. The drafters of such a rule clearly do not understand our markets and our banks and the role we play in our communitiesand in the housing markets within our communities.

Another significant change that would be very detrimental to our bank is the change in how regulatory capital would be calculated involving unrealized gains and losses on securities classified as available for sale. We have for 20+ years categorized 100% of our securities as available for sale (these currently make up over 30% of our total assets. We do not actively trade any of these securities and hold virtually all of them to maturity or until they are called. However, Basel III would force us to recognize as part of our regulatory capital formula huge swings in our portfolio value that before were not included.   There is no valid basis to include such an item within a community banks capital. You would force us unnecessarily to change our accounting of these securities (which we do not want to do – change for the sake of change) or result in huge swings and volatility in our capital ratios (both positive and negative) to no real benefit, and to do so during times of rapidly changing interest rates. It simply creates more uncertainty and confusion and does not lead to better oversight or a safer or more secure bank.

Rigid, one-size-fits all regulations like this hampers and harms our banking system and they hamper and harm our customers as well as our institutions in rural America. Over the years, we have had swings of nearly $2,000,000 in the unrealized gains/losses in our securities portfolio. This has had no real impact on our operation in the past, but would have large and detrimental impacts if it suddenly and unnecessarily impacted our capital ratios.

Please rethink the application of this reckless and damaging regulation to community banks. It has virtually no hope of achieving its objective in our setting and is certain to cause a continued drag on our industry and the economy at a time we should be trying to do the opposite.

I hope common sense can prevail –if it cannot in such an obvious setting at this, I fear for the future of our industry and our nation. Only sustained and continued economic growth will allow us to over-come the enormous and burdensome national debt we have recklessly accumulated. This regulation will make achieving that goal just that much harder.

Basel III is a prime example of “regulatory overreach”. It has a good goal, but is misapplied to smaller community banks. It would significantly affect our mortgage lending and the type of mortgage lending we prefer to do. It would increase our capital volatility as it relates to available for sale securities and will no doubt have other severe unintended consequences. It will stifle lending and economic growth at the very time it is so severely needed across America. Please reconsider your regulation and exempt its application to community banks!

Mark Blazek, President, Oak Creek Valley Bank
Valparaiso, NE