First State Bank

of St. Charles, Missouri Member FDIC

October 19, 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 comments 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. I am the president of a $260 million dollar community bank structured as a one bank holding company. We have been chartered for 145 years, offer a wide variety of loan and deposit products and have a growing residential mortgage department.

My purpose in submitting comments is to strongly encourage you to not implement the recently approved Basel III capital adequacy proposals and to rethink the need and the ramifications of implementing the proposals. For our bank the two most problematic issues are the pass-through treatment of unrealized gains and losses on our available for sale securities as applied to the common equity tier one capital calculation and secondly the revised loan to value risk weights applied to residential real estate loans in the risk weighted asset calculation.

As a community bank we have used our securities portfolio to manage liquidity and interest rate risk and not as a trading account. Flowing unrealized gains and losses through to the common equity tier one capital component of our RBC calculation causes significant volatility in the ratio.

The proposed loan to value risk rating on residential loan categories, including the held for sale portion, negatively impacts our risk weighted asset base if we increase our residential lending activity. It will double the risk rating factor in 50% of the loans we hold for sale with no consideration given for private mortgage insurance that is in place on these loans.

Using the FDIC's explanation/interpretation of the calculations in our case, would cause an RBC ratio that fluctuates up to 13% using our normal three year horizon. This is not manageable. I will suggest that three things will happen.

- Number one, of course, we will rein in residential real estate lending.
- We will incur significant and unpredictable costs to modify accounting software to be able to do these cumbersome and convoluted calculations.
- We will also have to increase staffing and consequently personnel expense to deal with the additional regulatory demands as a result of these proposals.

If the goal of these proposed rules is to decrease residential real estate lending activity and cause banks significantly more overhead burden in the process, then that is exactly what will happen. I don't believe anyone really wants these outcomes.

Thank you for considering my comments and concerns on these proposals.

Sincerely,

David P. Strautz

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