

# First State Bank

OF WILTON

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October 22, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve  
System  
20th Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Office of the Comptroller of the Currency  
250 E Street, SW  
Mail Stop 2-3  
Washington, DC 20219  
[regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)  
RE: Basel III OCC Docket ID OCC-2012-  
0008, 0009, and 0010

RE: Basel III Docket No. 1442

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation,  
550 17th Street, N.W.  
Washington, D.C. 20429  
[comments@FDIC.gov](mailto:comments@FDIC.gov)

RE: Basel III FDIC RIN 3064-AD95, RIN  
3064-AD96, and RIN 3064-D97

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals 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 am the president of a \$37 million community bank located in rural North Dakota. Forcing small community banks like ours to comply with the Basel III proposal is an attempt to fix something that is currently not broken. Basel III was designed to apply to the largest, internationally active banks and not to community banks. Community banks should be allowed to continue to use the current Basel I framework for computation of our capital requirements. Community banks like ours did not and will not engage in the unsound practices that severely depleted the capital levels of countries largest banks and created panic in the financial markets. Community banks operate on a relationship based business model that is specifically designed to serve customers in their respective communities in the long term. This model contributes to the success of community banks all over the United State through practical, common sense approaches to managing risk. This country's largest banks operate purely on transaction volume, pay little attention the customer relationship and operate under the 'too big to fail' veil. This

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difference in banking models and practices makes evident the need to place tougher capital standards exclusively on the largest banks to better manage the ability to absorb losses.

Including accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investments securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to interest rate changes is reflected in the valuation. The historically low, short and long interest rates have caused unprecedented unrealized gains for most investment securities. Additionally, demand for government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. This increase in demand has caused credit spreads to tighten more and further increase bond valuations.

The historically low interest rates are not sustainable long-term once an economic recovery begins. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. If interest rates were to increase by 300 basis points, our bank's bond portfolio would show a paper loss of \$1.4 million. Including this figure of AOCI in the computation, would mean that this bank's tier one ratio would drop by 52%. This paper loss would only be realized if the bonds were sold. Our bank does not as a practice buy and sell investments, but holds virtually all investments to maturity. Community banks should continue to exclude AOCI from capital measures as they are currently do today.

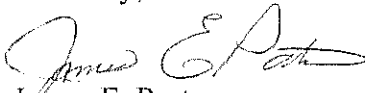
The entire Basel III directive would put additional, undue regulatory burden on community banks. The proposed risk weight framework under Basel III especially stands out as it is not only too complicated, but would penalize community banks and further limit the residential mortgage financing options available for borrowers. Increasing the risk weights for residential balloon loans, interest-only loans and second liens will penalize community banks who offer these loan products to their customer and deprive customers for many financing options for residential property. Additionally, higher risk weights for balloon loans will further penalize community banks for mitigating interest rate risk in their asset-liability management. Community banks will either exit the residential loan market entirely or only originate those loans that can be sold to a GSE. In both cases, the effect would reduce the availability of residential mortgage options. This would be detrimental in our state as well as across our country. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

Community banks are already overwhelmed with government regulation, and Basel III adds substantial, unnecessary, additional regulation. This regulatory burden will lead to higher borrowing costs and a reduction in availability of both credit and bank services to consumers, small businesses and local governments.

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Please exempt community banks from this additional regulatory burden. Allowing community banks to continue to use the current Basel I risk weightings will continue to serve banks, customers and regulators well.

Sincerely,

A handwritten signature in black ink, appearing to read "James E. Porter". The signature is fluid and cursive, with the first name "James" and last name "Porter" clearly distinguishable.

James E. Porter  
President