



Inter-State Federal Savings

AND LOAN ASSOCIATION
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September 24, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
Regs.comments@federalreserve.gov
Subject Line: Basel III Docket #1442

Office of the Comptroller of the Currency
Regs.comment@occ.treas.gov
Subject Line: Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010

Robert E. Feldman
Executive Secretary, FDIC
comments@FDIC.gov
Subject Line: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96 and RIN 3064-D97

Madam and Sirs:

Please allow me this opportunity to express my deep concerns regarding the proposed implementation of Basel III standards.

Inter-State Federal is a \$240 million mutual institution with five offices in the greater Kansas City area, organized in 1889. For over 120 years, our focus has been on providing affordable first mortgage loans in our local community. We've partnered with local government and community development groups to enable underserved low and moderate income individuals to enjoy the benefits of homeownership.

Two aspects of the Basel III standards would negatively impact our ability to meet local mortgage credit needs. First, under the proposed standards, a significant portion of our mortgage portfolio would be subject to higher levels of risk weighting. Our mortgage loans were granted in our local community using conservative underwriting standards, and frankly have not contributed to the economic stress under which the national economy struggles.

The proposed requirement that unrealized gains and losses on securities flow through capital is also an area of concern. Our securities transactions provide an important enhancement to the overall profitability of the institution, and the Basel III proposal

would force us to consider limiting any investment in longer-term assets. The primary risk of losses in most investment portfolios is from rapidly rising interest rates, not from underlying credit impairment. The volatility in capital levels under the proposed standards is not created under the current risk-based capital rules.

Having recognized the importance of maintaining capital levels far exceeding regulatory requirements, I'm confident that Inter-State would satisfy all capital requirements of Basel III. However, a "one-size-fits-all" approach that applies to all institutions regardless of size, risk profile, and complexity is ill-advised. I would respectfully request that the full impact of the Basel III proposal on community institutions be considered before implementation.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard T. Merker", written over a horizontal line.

Richard T. Merker
President

cc: Senator Pat Roberts
Senator Jerry Moran
Representative Kevin Yoder