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October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

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 and owner, along with my sisters and Mother, of Cambridge State Bank. We are one of a handful of banks certified by the United States Department of the Treasury's program as women owned and led. We have assets of approximately $70 million and operate two branches in Cambridge, Minnesota, one on Main Street and the other east of town in the "big box retail" commercial area. We will celebrate the 100th anniversary of our bank charter in 2014.

There are many items which trouble me about the proposed regulations, but I will focus on just a few of those:

1. This is another example of a regulatory environment in which small banks are being hammered by the same regulations that were written to curb the behavior of the bad acting mega-sized US and international banks that continue to prove that they do not have the ability to self-regulate and are a risk to the world's economic health. Certainly, little banks like ours do not pose anything near the same level of systematic risk, yet we are required to abide by the same rules.

2. As with every other well-intentioned, but burdensome regulation on the books, there will be additional paperwork and accounting burden placed on us. We are a

small business with just 17 employees and we barely have the resources to keep up with the regulations currently on the book. Already one of our 17 employees spends nearly 4 months, full time, per quarter completing the 71 page Call Report.

3. Mortgage balloon payments are used by us to mitigate risk, not increase it. A mortgage balloon gives us the opportunity to have a full discussion with our borrower about their current underwriting characteristics. This allows us to stay better informed about our customers. Further, balloons allow us to reprice for the current rate environment.

4. The loan loss reserve is designed to reflect the risks in the bank's loan portfolio, and acts as a direct reduction to capital. Using high risk weights for performing mortgages and non-performing loans is duplicative.

5. I see no rationale for capping the allowance for loan loss at 1.25%. Certainly, the loan loss reserve is the first line of defense against capital-absorbing losses.

6. I understand that the FDIC stands ready to pay off depositors should a little bank like ours go down, but I feel that the whole notion that the owners stand to lose their entire bank investment gets lost in the weeds. The owners' capital is the second line of defense against capital-absorbing losses (after LLLR, as stated above), and as owners, we certainly are focused on running our banks to not only make money, but to preserve capital.

7. The community bank model is worth preserving because it delivers growth capital directly to community businesses and individuals, and the US economy would be worse without it.

Sincerely,

Kim

Kim Erickson
President
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