First for You!

October 15, 2012

The Honorable Martin J. Gruenberg, Acting Chairman

Federal Deposit Insurance Corporation

550 17th Street, N.W.

Washington, D.C. 20429

Dear Honorable Mr. Gruenberg:

Thank you for the opportunity to comment on the Basel III proposal recently approved by the Federal Deposit Insurance Corporation. I am the Chief Financial Officer of First State Bank of Webster City, Iowa. We are a $300 million bank in North Central Iowa with branches in six communities, including new branches in four communities in the past 10 years. The goal of having higher risk banks maintain more capital to reduce systemic risk to the banking system makes sense, but the focus of these proposals appear to be misplaced on institutions that neither put the banking industry at risk due to size, nor do they transact financially complex transactions.

Specifically, as a CPA, I have grave concerns with the industry's preoccupation with unrealized gains and losses on securities available for sale. A bank like ours has 16.76% of our assets in investments with the vast majority in loans. To increase our Common Equity Tier 1 Capital $2,207,000 now or decrease it by a similar amount when interest rates rise not only does not reflect real risk in the balance sheet, it is disinformation. This single transaction can lead depositors to perceive strength or weakness in a financial institution that isn't there. The real interest rate risk in a balance sheet in gross mismatching of assets and liability maturities and the options attached to the funding and the assets they fund.

WEBSTER CITY	STANHOPE	FORT DODGE	EAGLE GROVE	CLARION	HUMBOLDT
505 Second Street	600 Park Street	3031 5th Ave South	323 South Commercial Ave	714 Central Ave E	1301 6th Ave N
PO Box 70	PO Box 125	Fort Dodge, IA 50501	PO Box 88	PO Box 536	Suite 3
Webster City, IA 50595	Stanhope, IA 50246	515-573-5150	Eagle Grove, IA 50533	Clarion, IA 50525	Humboldt, IA 50548
515-832-2520	515-826-3222		515-448-4567	515-532-2210	515-604-6420

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Investments represent $1/6^{th}$ of our assets and none of our liabilities. Marking these assets to market and running the gain or loss through capital gives no useful information to owners, managers, customer, or regulators. Creating a regulation that cause's huge fluctuations to capital is counterproductive in risk management. Credit Risk in the investment portfolio, on the other hand, is relevant to managing capital. GAAP has other-than-temporarily-impaired (OTTI) investment to reflect this risk via capital.

The second issue of concern in the proposal is risk weighting for residential loans. Our bank has an exceptionally good record of working with customers to help them stay in their homes. The new proposal appears to create a capital penalty for working with customers. Further, we use balloon mortgages as an interest rate risk management tool. Again, it appears to me we are going to have a capital penalty for managing interest rate risk. We've offered these loans for decades and now in one proposal these become "non-traditional." Further, it is my understanding, if we do a home equity loan for a customer both the first mortgage loans and the home equity loan will now be considered a higher risk no matter what the loan to value or debt to income is.

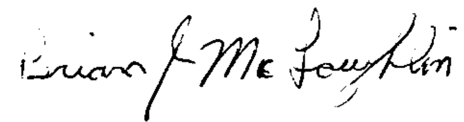
Thirdly, we serve our market by offering long term fixed rate mortgages that we sell to the Federal Home Loan Bank of Des Moines. The proposed rules appear to require capital for credit enhancing representations. Requiring off-balance sheet guarantees at 100% credit conversion during the initial early default clause, when we've sold over $100 million in loans and never had this clause exercised, seems excessive.

Although I'm in full agreement that banks that maintain a more risky balance sheet should maintain additional capital, several of these proposals appear to have no relationship to real balance sheet risk. Most community banks like ours have always maintained capital in excess of regulatory requirements so you might feel this would have little effect on the industry. However, it appears the real consequences of these proposals may be to limit the willingness or ability of investors to expand or sell banks. It could also cause banks to re-classify investments and reduce the ability to properly manage the investment portfolio. But the most disappointing effect would be if there capital requirements would limit access or increase cost of rural real estate borrowers.

It appears banks that do not pose a systemic risk and have limited complexity in their balance sheet could have a safe harbor capital level that would be much less onerous to both the bank and its customers. I live in a state were 80 of the 99 counties have less population today than they did in 1900. Time and time again I see a laws or regulations passed that are intended to correct a national problem

without proper consideration on its effect on rural America. Rural America does not have the lobby in Washington to have a voice. This appears to be another proposal where no weight was given to how community banks and their customers would be affected.

Sincerely,



Brian J. McLoughlin, CPA

SVP/Chief Financial Officer