



SPRING BANK

September 26, 2012

Re: Proposed Regulatory Capital Rules: Regulatory Capital, Implementation of BASEL III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Proposed Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements

Spring Bank appreciates the opportunity to submit comments on the above-referenced notices of proposed rulemaking (NPRs). Spring Bank is a \$160 million community bank located in Brookfield, Wisconsin. While we support the Agencies' efforts to address perceived weaknesses in the banking industry's capital framework, we believe there are several aspects to the NPRs which would have a significant detrimental impact on the operation of our institution. The comments provided below reflect specific aspects of the proposals that will most significantly impact Spring Bank and similarly situated community banking organizations.

Proposed Regulatory Capital Rules: Regulatory Capital, Implementation of BASEL III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Proposed Rule: Accumulated Other Comprehensive Income (AOCI) as a component of Tier 1 capital – The Agencies are proposing that AOCI, which includes all unrealized gains and losses on available-for-sale securities, would flow through to common equity Tier 1 capital. This would include unrealized gains and losses related to debt securities whose valuations primarily change as a result of fluctuations in a benchmark interest rate, as opposed to changes in credit risk.

We have a number of concerns regarding this proposal. The inclusion of unrealized gains and losses on securities would potentially introduce significant volatility to our regulatory capital ratios, particularly in a steeply rising interest rate environment. Interest rates are subject to temporary volatile swings that could greatly diminish our ability to properly manage our capital position by requiring us maintain additional capital to comply with a ratio requirement that reflects a potentially temporary adjustment.

The overwhelming majority of our investment portfolio is currently designated as available-for-sale and is of relatively short duration. However, to avoid capital volatility, this proposal would

likely lead us to designate a substantial portion of our portfolio as held-to-maturity which would only serve to unnecessarily restrict our ability to prudently manage our balance sheet. The proposal would also lead us to shorten our investment portfolio duration even further which may at times conflict with our ability to effectively manage interest rate risk, as well as impair our ability to produce income and generate capital appreciation.

Proposed Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements

Proposed Rule: Residential Mortgage Exposures – The Agencies are proposing residential mortgage loans be subdivided into two risk categories based on underwriting criteria (traditional vs. nontraditional). Within each category, risk-weights would then be assigned based on standard Loan-to-Value ratios.

Under the proposal, residential mortgage loans with balloon payments are considered higher risk and require a risk weighting as high as 200% depending on the Loan-to-Value. We strongly object to this proposal. The vast majority of the residential mortgage loans extended by Spring Bank are extended on 3-to-5 year terms with a balloon payment due at maturity. We offer this product because it is preferred by our customers and it allows us to prudently manage our interest rate risk. The Agencies' characterization of these mortgages as a "nontraditional" mortgage product reveals a complete lack of understanding of the role these loans play in community banking. Properly underwritten, these mortgage loans are no riskier than a fully amortizing mortgage loan. Should this proposal be implemented it will severely reduce if not eliminate a product offering that our customers seek, and will significantly reduce our ability to protect against interest rate risk.

Further, the NPR allows the primary federal regulator to make an independent determination that any particular loan may not qualify as Category 1 exposure even if the loan meets the specified criteria. We consider this proposal troublesome as the basis for that determination appears arbitrary.

The proposals failure to recognize private mortgage insurance as a means to effectively reduce the Loan-to-Value on residential mortgage loans is also troubling. We believe this will severely impact the availability of mortgage products to creditworthy borrowers, particularly first-time home buyers who often lack the necessary downpayment but otherwise have favorable credit characteristics.

We believe that a time when the housing sector is already severely depressed, these proposals only serve to further exacerbate the problem by effectively dissuading financial institutions to extend credit to otherwise creditworthy customers.

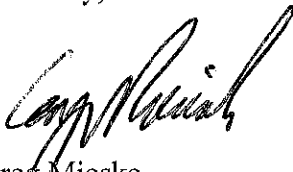
Proposed Rule: Past Due Assets Risk Weights – The Agencies are proposing that risk weights for assets > 90 days past due or on nonaccrual be increased from 100% to 150%.

Loans on nonaccrual or > 90 days past due are almost always considered impaired loans and therefore already must be specifically provided for within the loan loss reserve under FAS 114. This proposal results in these assets essentially being double counted without regard to their ultimate collectability. On that basis, we object to the proposal.

As of June 30, 2012, Spring Bank's total risk-based capital ratio was 16.24%. As a direct result of these proposals, the bank's total risk based capital would decline to approximately 13.94%. This assumes the bank has zero asset growth and there is not a significant increase in interest rates as increases in both would impair our regulatory capital position even further. Although we find many provisions of the proposal problematic, the provision requiring a significantly higher risk weighting for residential mortgage balloon loans would have the greatest impact on our capital position.

If these NPRs are enacted as proposed, they would significantly impair our bank's ability to extend loans to creditworthy individuals and businesses within our community. While we appreciate the opportunity to comment on the Agencies' proposals, we strongly object to those aspects of the proposals discussed above. If the economy is to recover, it will require strong community banks that are able to provide prudently underwritten loans to businesses and consumers without being unnecessarily constrained from doing so. We urge the regulatory authorities to withdraw these proposals due to the detrimental impact these proposals will have on credit availability to businesses and consumers, as well as on community banking in general.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Mieske". The signature is written in a cursive, flowing style.

Greg Mieske
Chief Financial Officer