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October 11, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

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 an $80 million community bank in Minnesota. We are just south of the Minneapolis metro area and much of our clientele is dependent on housing because the area serves as "bedroom communities" for the greater metro area Our bank is currently working toward a 4th generation of family management and ownership, and caters to the specific needs of the area in which we are located. We do a substantial amount of lending on residential real estate, as well as commercial real estate loans to small businesses.

Although our type of bank offers tremendous benefits to the community we are part of because of a lifetime of commitment to the community, it also has limiting constraints, especially when it comes to capital, and the overhead created by difficult to comply with regulation. Our belief is that if the BASIL III rules are forced upon us they may further impair our ability to compete and serve the community we have been part of since the early 1900's. They could even necessitate having to merge or sell to a larger bank outside the community because of the extra complexity the rules create, as well as the inability for a small bank to raise any necessary additional capital to comply with BASIL III

There is little doubt that Basel III was designed to apply to the largest, internationally active banks and not community banks. It is not our purpose to engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. We operate on a relationship-based business model that is specifically designed to serve our local customers in our community on a long-term basis. We make credit available to people based on long term relationships and history, and therefore need flexibility on terms and conditions to meet their needs. We know our customers, and can determine their needs, so the additional burden of having to structure loans to conform to new rules will hinder our ability to customize loans to meet the needs of the people and businesses we serve.

Another problem will be the Inclusion of accumulated other comprehensive income (AOCI) in capital for our bank. It will most likely result in increased volatility in our regulatory capital balances, and under certain circumstances could rapidly deplete capital levels to a point that even if we are a very sound institution, we could be considered undercapitalized. Large financial institutions have the ability to mitigate the risks of capital volatility by entering into hedges and other financial products, like derivatives, interest rate swaps, options, futures contracts, etc. We do not have the knowledge or expertise to engage in these transactions and manage their associated risks, costs, and barriers to entry. This means we will most likely have to manage our portfolio of loans and investments contrary to the needs of the bank and the community we serve.

We may even need to build additional capital balances to meet the minimum capital requirements because of the buffers it would put in place. We do not have ready access to capital that the larger banks have through the capital Markets. In addition the proposed risk weight framework under Basel III is so complicated that it will be an onerous regulatory burden that will penalize us, and jeopardize the housing recovery in our area because we will be severely restricted on the type of real estate lending we will be able to do relative to the capital we have. This problem is magnified by Increasing the risk weights for residential balloon loans, interest-only loans, and second liens because it will penalize our capital position as well as the availability of credit to our customers who rely on us for much of the local financing for residential property.

In light of all the above we plead with you to please exempt community banks for these new rules. There is only so much overhead and risk we can tolerate because of regulation, and adding this burden may be the thing that finally tips the scale to the extent we will not be able to be able to properly serve the needs of the marketplace any longer.

Robert Vogel, President