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October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

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

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

Re: Basel III Proposals

I strongly object to any Basel III proposals which would negatively impact our small community bank. Our bank, with total assets of approximately \$63 million has struggled the past four years as many banks have during this economic set back.

Myself and other Board members feel the proposed Basel III regulation is wrong for the community banks in this country which act as the engine in so many ways for our economy. The proposed regulatory rules present the following problems among others:

- Compliance with the wave of current and upcoming regulations is and will tax community banks for years to come.
- Community banks are long-term investors and do not actively trade their securities portfolio so including unrealized gains or losses in the securities portfolio is only meaningful in a liquidation scenario.
- Risk weighting will be challenging, expensive and a disincentive to mortgage lending.
- Dodd-Frank specifically allows the existence of Trust Preferred Securities.
- Mortgage servicing asset deductions from capital could impact mortgage availability.
- New restrictions on capital treatment of deferred assets, goodwill and pension accounts will, along with the above issues, lead to higher borrowing costs and diminished availability of both credit and bank services.

Independence State Bank both purchased and sold Trust Preferred Securities (TruPS). We understand that TruPS issued by Bank Holding Companies under \$500 million in total assets will be exempt from this portion of Basel III. The implications of Accumulated Other Comprehensive Income (AOCI) could impact the TruPS we hold in our investment portfolio, as there really is no market for these and subjects the bank to the risk of market valuation. Our bank currently holds \$2.25 million of TruPS in our investment portfolio and other than liquidity, we feel these are acceptable investment assets for our bank. Furthermore, the proposed regulation of treating investments “available for sale” to be adjusted quarterly based on current market value on the balance sheet rather than par will lead to more instability in the banks rather than more stability. The process which has been in place for a long time has worked well and to change as proposed is simply not needed. The end result of AOCI “could” impact our small community bank in Wisconsin over \$2.25 million. This outcome would be a blow to our bank in terms of capital and would add to the acceleration of consolidation of banks, resulting in fewer banks for Americans to have choices to go to for support.

The proposed regulation of Basel III will be devastating to Independence State Bank and most community banks. Please don't pass the Basel III proposed regulation for community banks.

Sincerely,

LaVerne Michalak
Chairman
Board of Directors