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October 20, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
**Delivered via email: regs.comments@federalreserve.gov**

Robert E. Geldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
**Delivered via email: comments@FDIC.gov**

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
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**regs.comments@occ.treas.gov**

Re: Basel III Capital Proposals

Thank you for the opportunity to provide comment on the Basel III capital proposals recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. We are a very small, $50 million, bank in rural North Dakota, and my comments come to you from that perspective.

As I am sure you have had numerous contacts regarding these capital proposals, I will make my comments brief. I think we can all agree that an effort to strengthen capital is a worthwhile one, as banks of all sizes need to be in a position to weather the inevitable up and down cycles in the marketplace. However, I have a few concerns with the Basel III proposals.

Risk Weighting of Real Estate Loans

There is no question, that loose standards in real estate lending caused problems for many banks. But you need to keep in mind that for many small community banks like ours, five year balloon real estate loans are the norm rather than the exception. However, these balloon notes have nothing to do with lax credit standards. They are purposely structured in this manner in order to allow us to effectively manage interest rate risk. We do not have the ability to carry long-term fixed rate loans on our books. To arbitrarily assign a higher risk weight to these loans simply because they are short in nature is to completely dismiss the very rational reason for that term in the first place. In addition, the risk we take on in these loans is already accounted for in our capital through our allowance for loan loss.

Mark to Market for Securities Available for Sale

Unrealized gains and losses are just that, unrealized. Certainly this is important information to report, and we already do that in our quarterly calls. However, charging an unrealized gain or loss against capital is an unnecessary step if the institution has the capability to hold that security to maturity. A small institution can be greatly affected by this. Market swings in rates could cause a wild variation in capital with really no true economic implication to the bank from a safety and soundness perspective. However, it could have severe operating and compliance consequences to small institutions, as a constantly shifting capital level will directly translate to a constantly changing legal lending limit. This may hamper our ability to serve our best (lowest risk) borrowers.

Whenever a crises unfolds, the natural reaction is to implement rules to prevent such a crisis from recurring. However, I implore you to resist the urge to swing the regulatory hammer too far in the opposite direction. It is hard to know what kind of an overall effect the new rules will have on community bank's capital in the aggregate. I may not have that much of an effect. But certainly these rules will have drastic unintended consequences on individual small institutions, that can create real operational nightmares. In addition, without question, complying with these new rules is going to be costly. Small banks like ours will most certainly need to hire outside counsel to help us to initially implement the new rules. We will also most certainly have to upgrade software in order to insure we have the ability to accurately report to our regulators. And finally, our staffs will continue to have to spend more time focused on complying with the never ending stream of regulation that could definitely be better spent meeting the needs of our customers.

I thank you again for the opportunity to provide these brief comments, and I ask you to weigh the perceived benefits of these new rules, vis-a-vis small community banks, against the heavy costs.

Respectfully,

Bruce A. Anderson
President

cc: North Dakota Bankers Association, Senator Kent Conrad, Senator John Hoeven, Congressman Rick Berg