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October 19, 2012

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

Re: Basel III Capital Standards

Ladies and Gentlemen:

While I have not taken the time or effort to comment on proposed rule changes in the past, I feel that the Basel III proposals recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation will have a significant negative impact on community banks.

I do appreciate the opportunity to comment on proposed Basel III rules. I am in support of increasing capital requirements and standards for financial institutions in our country to ensure that our industry is strong and capable of surviving severe economic downturns now and in the future, but these rules appear to me more appropriate for large complex institutions competing in a global marketplace than for banks of our size.

Our bank is a $90 million rural community bank located in Albia, Iowa. Our customers are small business owners, farmers, and homeowners. We are dedicated to our community and strive to provide quality financial services to customers of varying means. We're not unlike most other community banks in our country in that we want to continue to serve our customers and communities in the way we always have. My concern is that the new proposed rules will inhibit our ability to lend monies locally and will limit the profitable operation of our bank.

Following are areas of concerns with the proposal:

I. Requirement that gains and losses on available for sale securities must flow through to regulatory capital

Our bank has significant unrealized gains in our securities portfolio, much like many other banks at this time due to an extended period of low interest rates. When rates start to rise, this inflated capital position could quickly reverse and dramatically cut into the core capital position of institutions like ours. It appears to me that we are introducing a potentially severe cyclical and volatile position to our balance sheets.

If we stress our core capital positions due to the volatility of current market conditions, our bank's reaction would be to shrink our balance sheet and curtail lending until economic conditions improve. In this scenario, our customers are the ones to suffer due to the reduction of credit available.

102 South Main
P.O. Box 638
Albia, Iowa 52531-0638
Phone: (641) 932-7887
Fax: (641) 932-7760
www.peoplesbankalbia.com
Member FDIC

At this time, our bank's entire securities portfolio is marked as Available-for-Sale (AFS) because we want the ability to manage our portfolio during different interest rate environments and economic cycles in addition to providing a source of liquidity. Our reaction would be to reallocate all future security purchases as Held-to-Maturity (HTM) which would severely limit our abilities to manage the portfolio during future interest rate environments and the risks associated with those movements as well as limiting contingency funding plans.

II. Elimination of Trust Preferred Securities

Our bank is fortunate that we have not had to seek out additional capital and we have not invested in nor issued Trust Preferred Securities. But the proposal phases out a potential cost-effective source of capital for banks. In an environment which is difficult to raise capital, especially for small institutions, eliminating a capital source is another blow to community banks. Likely options for most all banks would be to reduce assets thus eliminating future growth opportunities.

III. Increased risk weighting for residential mortgage loans

Approximately one-third of our loan portfolio is made up of 1-4 family mortgages in the communities that we serve. This proposal along with some of the rules being considered by the CFPB directly threatens our ability to comply and fund this important sector of our business. We would have little choice but to discontinue offering home mortgages.

The non-bank mortgage lenders were the real culprits behind the housing crisis but this nation's community banks are being forced to pay dearly for the misdeeds of others. Underwriting efforts at community banks has been historically strong and adequate. The new capital requirements which take into account higher risk weighting than other loan types is not warranted in my opinion. This will do nothing more than to increase our costs and limit the volume of loans that we would be willing and able to provide in our market.

Also, making the change to risk-weighting individual loans instead of asset classes would create additional burdensome tasks for our staff, which have already taken on more duties due to increased and complex compliance rules. Instead of fostering a positive and efficient atmosphere in which to provide needed service to our communities, we have morphed into a role that makes it extremely difficult to conduct business for our customers.

IV. Change in risk weighting for home equity and junior lien loans

The volume of our home equity and junior lien loans is a fraction of our core lending business but it does provide some options and alternatives for our customers. Significant increases to the risk weighting will not have a substantial affect on our capital, but will cause us to seriously consider the worthiness of continuing to offer these type products.

V. New rules regarding "High Volume Commercial Real Estate"

Proposed rules in this area are probably needed due to a variety of risk profiles that exist with lending of this type. This will likely tighten up underwriting and structuring of these loans but will probably reduce the number of development projects nationwide. Our bank has not participated in these types of credit in the past and will continue to avoid similar projects outside of our community.

VI. **Proposal to increase risk weights on delinquent loans**

Several years ago, community banks were required to make significant changes and adjustments in determining our loss reserve calculation as part of FAS 5 & 114. We spend many hours each month to ensure that we can validate our reserves to our board of directors and to bank regulators. By risk weighting delinquent loans and increasing the capital against those loans, it seems to me that this is duplicating the reserve process. I feel we should continue to manage our problem credits through our loan loss reserve and not by an additional capital requirement.

For our bank, one adverse effect to this requirement would be to move delinquent assets off our balance sheet more quickly which would reduce our willingness to work with distressed borrowers to remedy delinquencies.

The proposed rules would negatively impact our bank in the following ways:

1. Increasing the amount of capital we will need to hold. The items above will increase our risked based assets and decrease the amount of capital we currently have. This assumption is based on the way we have continued to do business.

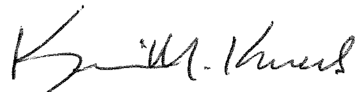
2. The amount of work that will be required to comply with these proposed rules along with training of bank staff on how to interpret and apply these rules will greatly increase the operating costs of our institution. Additional expenses would include: core processing and software re-programming to handle individual coding requirements, report generation to analyze the data, and the possibility of hiring a consultant(s) to assist in program implementation and utilization.

3. Loss of revenues from exiting the business of mortgage lending will result in staff layoffs and homeowners will have one less option to seek a mortgage.

An increase in regulatory capital at some level is desirable but the effects that the proposal will bring will have a severe impact on our bank and most community banks in our country. Please consider the adverse affects that these proposals will bring to banks of all sizes, but primarily to smaller institutions. We need to be able to continue serving the needs of our communities without unnecessary and burdensome regulatory road blocks.

Thank you for your time and consideration.

Sincerely,



Kevin M. Kness
President / CEO