



October 18, 2012

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

Dear Mr. Feldman,

This letter relates to the request for comment on the proposed capital rules released by federal bank regulators in June 2012.

American Bank of the North is a \$600 million community bank located in Northeastern Minnesota. The bank has 16 branches serving 11 communities. The implementation of the Basel III capital accord as proposed will have a dramatic negative impact on the bank, as well as the communities we serve.

Of primary concern is the complexity of the proposed regulation, which makes even providing the requested comments difficult. The regulation's 1,000-plus pages of proposed capital rules is representative of the resources which must be dedicated by banks in order to attempt to comply. While a few banks may be strengthened by the rigid rules, the system as a whole would benefit from regulators applying the existing framework to individual banks. Such an approach allows regulators to assess individual risk management strategies and more effectively ensures the sufficiency of each bank's capital position.

Second, the cost for banks to develop sophisticated capital tools to comply with the regulation will be substantial. This development and ongoing monitoring will be very resource intensive. While the largest banks may be able to incorporate the analysis into existing systems, bank's like ours without such sophisticated modeling needs for our core business, will require an undue amount of resources dedicated toward capital planning.

Third, the treatment of residential real estate in the Basel III proposal will have immediate and harmful effect on consumers seeking home loans. Home loans represent low-risk diversification to our portfolio. American Bank holds approximately a quarter of our loan portfolio, or over \$100 million, in low risk home loans. In fact, our historic losses on these types of loans are markedly less than our overall loss history. However, the Basel III proposal appears to punish lenders offering home loans to their consumers. This harsh treatment could lead to banks like ours leaving this market, which would have a significant negative impact on the bank and on our consumers and communities. As indicated above, these loans have historically represented a relatively low risk to a bank's capital; thus, treating all such loans with an arbitrarily high risk weighting is unwarranted. Our bank supports the current 20 percent weighting for such

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traditionally low risk loans. For those particular loans that elevate a bank's risk profile, the regulator-scrutinized ALLL should continue to be the safeguard against losses.

Fourth, while loan-to-value (LTV) ratios are an element of determining credit quality, they are only one part of that determination. The Basel III proposed rules require risk weighting of every residential real estate loan based on LTV. The proposal requires banks to hold additional capital based on initial LTV. Banks will be required to hold higher capital than necessary as the loan amount is paid down. This over-capitalization of a relatively low-risk product may lead to banks exiting this lending market. Further, I am concerned about the additional recordkeeping and reporting that will be required by these proposed rules. In addition to the obvious changes to Call Reports such as those needed to reflect the new common equity tier 1 capital ratio and the new capital conversion buffer calculations, monitoring of the LTVs will also be needed. Banks like ours already devote considerable amount of resources for regulatory reporting, and the cost associated with these changes will be disproportionately high for banks of our size and smaller.

Finally, the Basel III proposals regarding changes to the treatment of unrealized gains and losses on AFS securities will result in significant volatility to banks' regulatory capital, which will not be reflective of actual risk. In addition to low risk U.S. Treasury and agency bonds, we typically hold municipal securities to better serve our communities. These local bond purchases are one way we serve the needs of our communities at a low risk to the financial system. The proposed rules will limit the opportunity for banks like ours to purchase and hold these bonds. This will negatively impact numerous communities that rely on their local banks for support.

The above issues highlight the primary concerns our bank has regarding the negative impact these proposed rules will have on our bank and our communities.

Sincerely,



Bryan L. Rude  
Chief Executive Officer