



LAKE ELMO BANK

A TRADITION OF SERVICE

Daniel D. Raleigh
President/CEO

October 17, 2012

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

FDIC RIN 3064-AD95
FDIC RIN 3064-AD96

RE: Comments in Response to Basel III Proposal

Dear Mr. Feldman:

I am writing this letter to (1) address the Basel III proposed capital changes and (2) to propose a direction for all regulatory agencies to advise law makers and to set guidelines for law interpretations.

With the proposed changes to Basel III, there is a significant negative impact to community banks. Basel III has been designed for large banks with a significantly different balance sheet and business model. For this reason, there is a disconnect between meeting the requirements of this proposed capital regulation change, and the effect it will have on community banks. One example is the focus on five-year term real estate loans. Historically, community banks, including Lake Elmo Bank, have used these products to avoid substantial interest rate risk. A significant change in capital requirement for these types of loans, will drive community banks into changing the terms of these loans as much as it will drive higher capital reserves. This will add risk to the community banking group, and ultimately cause more harm. Throughout the recent crisis, these balloon notes were all re-written with fair rate adjustments which were more than acceptable to small bank customers, and in many cases added to the success of their financial rebuilding.

The benefit of community banks is their ability to be nimble and design products for their customer's individual need, while not taking on excessive risk. Basel III will dictate and limit products available to these small business and individual customers.

We also object to the phase-out of the tier one treatment of trust preferred securities. Without access to the capital markets available to large banks, trust preferred securities are an important source of capital for community banks, including

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Lake Elmo Bank. This was recently recognized by the Collins amendment to the Dodd-Frank Act, which permanently grandfathered the tier one treatment of TRUPS for community banks.

Any issues with capital found in the community banking system, resulted from fast growth strategies, high lending limits, and increased risk profiles. As seen after the crisis was initiated, regulators have sufficient authority to adjust minimum capital requirements on individual banks with existing laws and regulation.

The second point I would like to make is that of the cause of our financial crisis. It is no secret that this crisis grew from the allowance of merging banks and investment banks, partnered with the implied fact that these large institutions are too big to allow them to fail without a systemic problem with our financial system. It is imperative that law makers spend time and effort developing legislation that begins to break up these banks into smaller pieces, including separating the investment bank divisions.

While this has been attempted, most of the passed regulation has added difficult to understand, high cost monitoring, with very little positive affect on individual customers and taxpayers. Based on economies of scale, the cost of following the new regulation is significant for community banks, is forcing bank sales/mergers, and adding to the mass consolidation problem.

Very truly yours,

A handwritten signature in black ink, appearing to read 'DDR', with a long, sweeping flourish extending to the right.

Daniel D. Raleigh

DDR/pw