TFB TECUMSEH FEDERAL BANK

"Helping people since 1904 enjoy investments they live with."

October 16, 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, S.W.
Washington, D.C. 20219

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

Re: Basel III Capital Proposals

Madam and Sirs:

This letter is in response to the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am president of a $64 million mutual savings bank located in Southeast Nebraska. We are a traditional community bank founded in 1904 as Tecumseh Building and Loan Association and operate under a mutual charter. Our primary lending focus is home loans for customers in rural areas of Nebraska while also providing agricultural loans, small business loans and consumer loans in our community. I am highly concerned about the effects Basel III will have on our ability to continue supporting the economic development opportunities in our area.

One of my concerns relates to the provision requiring all banks to mark to market their available for sale securities. Our bank has a very conservative investment philosophy with a bond portfolio totaling approximately $18 million and is made up primarily of fully backed government agencies and mortgage backed securities. These investments have little, if any risk of loss, but are subject to interest rate risk, which we manage very closely. Historically, we have generally held our bonds to maturity. At the present time, during a period of historically low rates, we have a positive market value adjustment in our bond portfolio of $284,000. Shock testing our portfolio indicates that even a 300 point increase in interest rates would create over $869,000 change in the market value adjustment and decrease our capital under Basel III. As of June 30, 2012, our Tier One Capital was 14%. Operating under a mutual charger, we have always believed in maintaining strong capital at our bank. Based on a 300 point increase in interest rates, our Tier One Capital would drop below 13%. Even though this may be deemed adequate capital, it is could be cause for reduced lending and possible regulatory concern. As you know, operating under a mutual charter limits our ability to raise additional capital which would create further issues with our regulators.

An additional concern relates to the increased risk weighting on delinquent loans. A large percentage of our loans are secured by residential mortgages which we service. As you are aware, in the current economic climate, many homeowners are experiencing historically high delinquencies. The proposal of increasing risk weighting on past due loans has the effect of decreasing capital and potentially increasing loan loss reserve requirements.

Finally, I have concerns with the ability of small financial institutions in dealing with the complexity of Basel III. We have a staff of 8 people and are spending more of our time dealing with regulatory issues than serving our community. Even if Basel III does not require significant changes in capital, it will certainly require additional expense on the part of our bank and the banking industry.

I hope that you will strongly consider starting over on the accounting requirements for banks. Basel III can have unintended long term consequences on community banks such as Tecumseh Federal Bank.

Respectfully,

Steve Darling
President

Cc: Senator Ben Nelson
Senator Mike Johanns
Representative Jeff Fortenberry
Representative Lee Terry
Representative Adrian Smith