VARNEY
& ASSOCIATES, CPAs, LLC

October 19, 2012

Department of the Treasury: Comptroller of the Currency
Subject Line: Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets: Market Discipline and Disclosure Requirements
E-mail: regs.comments@occ.treas.gov; or FAX: 202-874-5274

Federal Reserve System
Subject Line: Docket No. R-1442; RIN No. 7100 AD 87 Regulatory Capital Rules
E-mail: regs.comments@federalreserve.gov or FAX: 202-452-3819 or 202-452-3102

Federal Deposit Insurance Corporation
Subject Line: FDIC RIN 3064-AD 96 Regulatory Capital Rules
E-mail: comments@FDIC.gov

Our CPA firm proudly performs most of the accounting services for approximately 150 Kansas community banks. We believe we have a good understanding of what it takes for them to maintain adequate capital and be safe and sound to protect the integrity of the banking system. We have reviewed the comment letter of the Kansas Bankers Association (KBA) dated October 19, 2012, which contained survey results of a fair sampling of Kansas Community Banks.

We offer the following additional comments and observations on the impact of the Basel III Capital proposal:

1. Community banks use investment securities to assist with quick liquidity, if needed, and also as a source of earnings and thus, capital enhancement, not for "trading purposes". The proposal of having accumulated other comprehensive income as capital will force well capitalized community banks into shorter term securities to avoid large swings in value. Shorter term securities generally yield less; thus, the result will be lower earnings and capital. Conversely, those who may not be as well capitalized may actually buy the less demanded, longer term securities (which generally means higher interest earnings) and capital enhancement. Market swings will be more pronounced, thus actually making those banks less well capitalized under the proposal. Thus, the proposal may be counterproductive.

2. The requirement to raise risk based ratings for many types of loans, particularly personal residence balloon notes, will force most community banks to be less inclined to fill a need in their communities. Most of the loans made by community banks are well secured and the proposal will curtail a needed viable service to their communities. Alternatively, if community banks go to fully amortizing notes as a consequence, they could be hurting their interest rate exposure which could lead to less capital and thus be less safe.

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3. The proposed rules are complex and will require additional "compliance" efforts and funds that directly lower earnings and capital in a time when community banks already have higher costs and less capital from existing "regulatory burden".

Conclusion:
Rules should be simple, straightforward and not cause unintended negative consequences. The proposal is for the most part counterproductive to those goals and should not be adopted. As an alternative, the current standards could be applied more evenly across the board for community banks and investment type banks.

Please call me at 800-240-5004, or email at thintz@varney.com for questions or clarifications.

Sincerely,

Thomas Hintz CPA/PFS, CPMA
Varney & Associates, CPAs, LLC