



BANK OF KEYSTONE
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October 22, 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, SW
Mail Stop 2-3
Washington, DC 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

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals¹ that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. This one-size-fits-all proposal jeopardizes the viability of the community bank model.

I am CEO of a \$55 million community bank in southwest Nebraska. We have four locations located in rural, agrarian communities. Our loan portfolio is predominantly agricultural in makeup consisting primarily of irrigated as well as non-irrigated row crop farmers and cow-calf producers of the Nebraska Sandhills. This family-owned bank was chartered in 1909 and has served its communities well for going on its 104th year.

This most recent proposal in the way capital ratios are calculated as well as changing the standards for what is defined as 'well capitalized' is another threat to a bank such as ours. Specifically, the portions related to changes regarding investments held as Available-for-Sale (AFS) and risk weighting of 1-4 family residential real estate loans will have a significant negative impact on the bank's capital ratios. Our investment portfolio is primarily utilized as a source of ready liquidity and pledging to public funds accounts such as our local school districts, county governments and municipalities that trust their deposits with our institution. Yield and a source of earnings are secondary. Regarding 1-4 family residential real estate loans, our bank has significantly and purposefully stepped back from this type of lending as a result of the massive changes in the regulatory (compliance) environment. That being said, we will occasionally accommodate an applicant in order to assist a home sale in the communities we serve. When we do these loans, they are typically on a three- or five-year balloon while being amortized over a longer period of time to fit the applicant(s) income. The balloon terms allow us to keep the loan in-house while mitigating interest rate risk.

Our bank has been successful in building capital over the years through retained earnings, which is the model many community banks follow. Raising capital does not happen overnight. Our earnings, and subsequent building of capital, are under assault by a proposal such as this. Increased regulatory and compliance burden already pulls on our earnings in the way of additional training and personnel costs. This proposal would have the same impact but also, and more importantly, threatens the history and future of this bank being 'well capitalized.'

Thank you for the opportunity to comment.

Sincerely,

Korey B. Schow, CEO

¹ The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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