The Farmers Bank

FARMERS TRUST & SAVINGS BANK

December 28, 2005

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

RE: Basel I-A
12 CFR Part 325
RIN 3064-AC96

Dear Robert,

Thank you for allowing us to comment on the Basel I-A Accord. We are a $225 million rural bank located in Northwest Iowa.

We currently compete with a Bank of America and US Bank in our marketplace and feel the Basel Accord will allow large banking organization to operate at lower capital standards and become more competitive. Large banks have economies of scale, unlimited technology abilities, access to capital and services from a variety of places, and expertise to handle these complex calculations.

As I review the Basel I-A proposal for our bank, it appears if implemented, the calculation would require higher capital or produce a lower capital ratio. By adding short-term commitment and higher risk weighting for past due and non-accrual loans, would not be offset by the savings in 1-to-4 residential mortgages because they represent less than 10% of our assets.

I have decided to only comment on certain aspects of the proposal.

A. Increase the Number of Risk-Weight Categories
   I am in favor of increasing the number of <u>lower</u> risk-weighted categories, however, I think the increased suggested categories are excessive. To me, reserving at 350% is out of line. There is no way you would lose 3 ½ times the face value of a loan. I agree that too many risk-weighted categories will create an unnecessary burden.

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B. Use of External Credit Ratings
It appears that you will retain certain treatment for municipal obligations. We purchase a large number of non-rated Iowa municipal bonds. They are not non-rated because of credit quality, but because they can sell them at attractive rates without incurring the cost from a rating agency. I would hope that we could continue to hold non-rated municipal bonds as we currently do in a 20% risk weight category.

D. One-to-Four Family Mortgages: First and Second Liens
Adding additional risk-weight categories for 1-to-4 family mortgages makes sense. However, as consumers request long-term fixed rate mortgages, I question the amount of mortgages left on the books of smaller community banks since most loans are packaged and sold. These mortgages currently represent less than 10% of our total assets. It appears loan to value ratios would be the easiest determining factor. I agree that you should retain the 100% risk-weighted category for HELOCs. Administration costs would be an excessive burden on these types of loans.

G. Short-Term Commitments
Adding a risk-weighted category for short-term investments would impact our bank because we would have a large number of commitments to farmers in our area for operating. I do not recommend risk-weighting short-term commitments unless you are willing to lower the risk-weight for long-term commitments.

H. Loans 90 Days or More Past Due or in Nonaccrual
I agree that past due and non-accrual loan expose the bank to greater risk but I still doubt the risk is much more than 100%. If you implemented a very high risk weight category, I assume a $1 million non-accrual loan would instantly turn into a $3.5 million loan and would require excessive capital because even if we charged off the entire loan, we are still only losing 100%. With the possibility of higher risk-weights for non-performing loans, I believe this will tighten credit standards and encourage banks to pass on marginal credits.

J. Small Business Loans
I encourage you to consider lower risk-weighting for small business loans but I think the $1 million consolidated basis per single borrower is too restrictive currently. Our current lending limit is $2.5 million to one client and therefore I think you should consider raising this limit.

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III. Application of the Proposed Revisions
I agree there should be an asset size threshold below which banks can operate under existing risk-based capital framework. I recommend that asset size level be at least $500 million.

I also recommend that the loan loss reserve amount applicable to the capital component should not be restricted to a percentage of risk-weighted assets. If the bank is willing to put extra funds in the loan loss reserve, then the entire amount should be allowed in the capital calculation.

Again, thank you for allowing us to comment on this proposal.

Sincerely,

David W. Woodcock
Sr. Vice President/Cashier

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