**From:** Ron E. Bowden [mailto:rbowden@insb.biz]
**Sent:** Tuesday, September 25, 2012 4:26 PM
**To:** Comments
**Subject:** Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

September 25, 2012

To: Members of the Federal Deposit Insurance Corporation Board

Re: Implementation of Basel III Capital Rules

On behalf of Iowa-Nebraska State Bank and Commfirst Bancorporation, Inc, a $200 million asset community bank and holding company, I am commenting on the notice of proposed rulemaking (NPR) to implement the Basel III Accord capital rules. Since the entire NPR does not impact community banks, I will limit my comments to sections with the most deleterious effects on our institution and community banks in general. It is our belief that community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. Our Bank serves the financial needs of our customers who are predominantly small business owners, farmers and working families, and as such, we did not engage in the highly leveraged activities that contributed to the housing bubble and depleted capital levels of some of the largest financial institutions while creating a financial panic. We firmly believe the Basel III standards will not reduce risk for community banks, but on the contrary, dangerously increase market and capital volatility that will damage our ability to serve our customers and community as we have successfully done. To reiterate, we believe the current Basel I process correctly assesses our capital requirements while providing a solid, stable basis for the safety and soundness of community banks.

Perhaps no component of the Basel III proposal is more damaging and unnecessary than the inclusion of accumulated other comprehensive income (AOCI) as part of regulatory capital. This represents "mark-to-market accounting for community banking", an accounting process that has clearly undermined a stable financial system. AOCI for my bank represents the unrealized gain or loss on investment securities available for sale. By maintaining our securities as available for sale (AFS) and generally holding most securities to maturity, the Bank is able to maintain investment securities for routine and if required, emergency liquidity needs. The flexibility of AFS also allows the Bank to purchase numerous long term municipal bonds to support the infrastructure funding for our communities. Routine quarterly regulatory reports present unrealized gain or loss on securities and the Bank's risk on securities is clearly identified. It is not however, included in the calculation of Tier 1 or Total Risk Based Capital. Whether a community banks possesses a "gain" (as most currently do) or "loss" on its AFS securities, this AOCI is an ephemeral capital component that is not used for capital strength, regulation or planning as is the core common stock, preferred stock, related surplus and retained earnings of a community bank. Our core capital is our bedrock and has not been subjected to volatility of interest rate cycles that routinely provide the "trading" community with profit opportunities. Since our current interest rate environment is planted at all time lows, most community banks show AFS gains but the risk of an inevitable increase in interest rates, the risk of reduced capital by Basel III far exceeds any perceived benefits. As an example, if interest rates were to increase by 300 basis points, my bank's investment portfolio would swing from a current paper gain of $1 million to a paper loss of $5 million. This would drop my bank's tier one ratio by 30% and place the bank in a stressed capital position. As seen in the financial meltdown of 2008, rapid market panics and damage inflicted by MTM accounting can be swift and senseless. If Basel III was implemented, community banks would be forced to drastically change their investment portfolio purchases by purchasing only short term government issues and excluding municipal bond purchases. The loss of income and loss of municipal support just exacerbates this unwise proposal. Basel III and market-to-market accounting are ill-advised for all banks, but is insane for community banks.

Thank you for your consideration in this proposal. While including AOCI as regulatory capital is clearly the most damaging issue in the proposal, other issues such as elimination of Trust Preferred Securities, Capital Conservation Buffers with potential restriction on Subchapter S distributions, and New Risk Weights all present unnecessary threats to community banks. Ironically, the Basel III proposal itself, if implemented, would create more risk in community banking than the proposal was intended to control. Bad accounting rules that create more risk, distort logical behavior and compromise safety and soundness in the banking system are simply wrong. I strongly urge you to reject Basel III proposal in total for community banks and continue the use of Basel I capital rules.

Sincerely,

Ronald E. Bowden
Chairman

Ronald E. Bowden, Chairman & CEO
Iowa-Nebraska State Bank
P.O. Box 37
South Sioux City, NE 68776-0037
Phone: 402/494-4225, ext 1034 Fax: 402/494-5086