Security Federal
Savings Bank

314 4th Street, Logansport, 574-722-6261
300 Mall Road, Logansport, 574-722-3826
1260 S. Washington, Delphi, 765-564-3000
519 E. Markland Ave., Kokomo, 765-457-1161

September 24, 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 seeking comments on the Basel III proposals. Security Federal Savings Bank is a 78 year old mutual thrift with $200 million in assets. We take great pride in providing 65 jobs and numerous financial services that include home mortgage loans, home equity loans, fiduciary, small business lending and deposit products. Our services are offered in central Indiana and heavily concentrated in a four county region that includes Cass, Howard, Carroll and Tippecanoe counties.

Security Federal has maintained a well-capitalized capital position (Tier 1Leverage Ratio- 11.99%; Tier 1 Risk-Based Ratio-22.21% and Total Risk-Based Capital Ratio – 23.46% as of June 30, 2012) for at least 20 years, including the most turbulent economic times in history. Our Capital Policy specifically states "the Bank shall strive to maintain regulatory capital ratios at not less than the minimum levels required, currently defined as well-capitalized."

While we believe regulatory oversight should be applied in varying degrees, as a community bank certain language in Basel III would adversely affect our ability to conduct business and serve the community in the same capacity we are serving today.

Of first concern is suggesting that unrealized gains and losses on available for sale securities flow through common equity tier 1, if implemented this proposal will result in significant volatility in our capital ratios. **We do not support this language based on the following impact to Security Federal Savings Bank and the communities we serve.**

Available for sale investment holdings make up 20% of our total assets. Currently we have an unrealized gain of $1.3 million on this asset portfolio; a 300 basis point increase in market rates would create an unrealized loss of $3.1 million. This would decrease all of our capital ratios by 1-2% and completely negate the impact of earnings to capital. Our normal practice is to hold these investments until maturity, with no intent to use them as a means to manage our capital position.

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In addition 30% of our total investments support long-term municipal bonds. With your proposal long-term investments will be considered "too risky" due to the potential negative impact to capital. Pulling funds out of the local bond market will create a need for investors that may not be fulfilled. Eliminating long-term investments from our portfolio will reduce yield, total earnings and ultimately our ability to fully support our community with lending opportunities and contributions to local non-profit agencies and school corporations.

For liquidity and interest rate risk purposes, it is not feasible to hold investments in a held-to-maturity classification. Therefore, banks will begin looking at riskier investments adding credit risk to the balance sheet to offset potential reduction in capital.

A second item of concern is the proposal to increase the risk weight on a secure first mortgage if a junior lien is delinquent. This practice will drive up the price of the home equity note and restrict the availability of credit.

A recommended range for the Allowance for Loan Loss unique to the characteristics of Security Federal's loan portfolio, market conditions, delinquency rates and lender experience is calculated monthly. It is our belief that we adequately safeguard any potential loss of capital by maintaining an adequate reserve account. We will be subject to a second penalty of sorts if we are then required to increase the risk weighting of the first mortgage, a second reduction of capital.

Currently our Allowance for Loan Loss ratio is 1.37% and includes a factor for trends in delinquency and impaired loan totals. Imposing additional adjustments to capital will not be acceptable. **We do not agree with imposing increased risk weights on delinquent loans.**

Community banks have limited resources to adapt their reporting requirements to meet the requests of the regulatory agencies. Investing in additional staff and technology in order to comply with the proposals of Basel III creates an added cost of compliance that we cannot continue to absorb and not pass on to our customers.

Sincerely,

Annette Russell

Annette Russell, CEO