



October 1, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> Street and Constitution Avenue,  
N.W.  
Washington, D.C. 20551

Robert E. Feldman, Executive  
Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance  
Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429

Re: Basel III Capital Proposals

Dear Ms. Johnson and Mr. Feldman:

I appreciate the opportunity to provide comments on the Basel III Capital proposals that were recently approved by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency.

For the past 35 years, I have had the privilege of serving as Executive Vice President, President, and CEO of The Village Bank, in St. Libory, Ill., a rural town of 600 people located in southern Illinois. The Village Bank is a Subchapter S Corporation, with \$76 million in assets and nearly \$68 million in deposits. Our bank has been providing banking services to the consumers and businesses that reside in our town for nearly 100 years. Our customers have been the bank's customers for decades, and many of them are the grandchildren and great grandchildren of the bank's very first customers.

My bank is particularly concerned about how the proposed higher capital requirements, combined with the higher risk-weighting assets, will severely reduce credit availability in our community, particularly in residential loans. This alone could drive many community banks out of the mortgage business entirely, and in my bank's case, most likely out of the banking business altogether.

While not unique to other community banks, 66% of our bank's loan portfolio is composed of 1 to 4 family balloon loans and are held in-house, because our

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NEW ATHENS, IL 62264  
618-475-2200

856 SPARTA STREET (PO Box 325)  
ST. LIBORY, IL 62282  
618-768-4404

720 EAST LYONS (PO Box 49)  
MARISSA, IL 62257  
618-295-2746

customers prefer it this way. All of our 1 to 4 family balloon loans are dealt with on an individual basis; we do not deal in the secondary market on any loans. We do not implement across the board rate changes for any of our loans, and we do not have the loan volume to exist on income from servicing rights.

As I understand the proposed new standards for risk weighted assets, any 1 – 4 family real estate loans with a balloon feature will be assigned a risk weight of 100%. All of our real estate loans are written with a balloon to mitigate interest rate risk. We have been writing balloon real estate loans for decades without any adverse effect on the bank or our customers.

Now to arbitrarily double the capital requirement for this type of loan will have serious consequences for all small banks like ours as well as the bank's customers.

If these proposed rules are meant to abolish balloon loans, it would be devastating to small rural communities like mine who still enjoy a face to face relationship with their loan officers. This would especially be a problem in rural areas like ours where homes often have difficulty qualifying for conforming mortgages, and I do not believe there is any evidence that loans of this nature represent greater risk than conforming loans.

If our capital drops below any one of the three proposed ratios, the bank would be prohibited from distributing any dividends. As a Subchapter S Corp., even if no dividends are distributed, income still is passed thru to the shareholders based on the number of shares they own, and they pay their respective tax rate on their share of the bank's income. Yet no dividends would be distributed to help offset their tax rate, despite the likelihood of our bank being well-capitalized with over 9% tier one capital. Consequently, this raises the question of why anyone would want to continue being an investor in our bank.

In summary, while Basel III may be an appropriate standard for the larger and more diversified "systematically important" financial institutions, it is being considered without regard to small rural community banks with simplified balance sheets and customary lending activities who serve their individual communities.

I strongly urge you to consider the impact that the proposal will have on local communities, and to consider a possible exemption for most community banks from the bulk of these rules. Community banks, like mine, play a critical role in serving and strengthening our communities and local economies, and my bank hopes to continue doing so for another 100 years.

Thank you for your consideration of my views.

Respectfully submitted,

Kathy Cook  
President and CEO

Cc: The Honorable Elizabeth A Duke,  
Member, Board of Governors of the Federal Reserve System  
Senator Richard J. Durbin, U. S. Senator for Illinois  
Senator Mark S. Kirk, U. S. Senator for Illinois  
Congressman Robert Dold, 10<sup>th</sup> Congressional District of Illinois