From: David Woodcock [mailto:david@farmerstrust.com]
Sent: Thursday, September 27, 2012 12:30 PM
To: Comments
Cc: 'David Woodcock'; Bean, Bobby R.
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen -

I appreciate the opportunity to provide comments on the BASEL III proposals. I have commented twice before and wish to submit one last email expressing my latest and ongoing concerns over BASEL III as proposed.

We are a $300 million community bank in rural NW Iowa that was formed in 1916, and will be celebrating our 100th anniversary in a couple years. We survive by meeting the credit needs of our agricultural and business clients and individuals in our community. To date, we have had the flexibility to structure loans to meet each individuals varying personal and business loan needs.

I wish to follow up on the following areas of the proposals:

<u>Requirement that unrealized gains and losses on available for sale securities must flow through to our regulatory capital ratios</u>

At this quarter end, our unrealized gain on our security portfolio of around $118 million will be around $3.5 million. The main reason for this gain is because of the decline in investment yields on existing securities in our portfolio, purchased in a higher rate environment. If this were currently added to capital, our capital would increase, but again is just an accounting entry (just like Mark to Market accounting), and is only real capital if we sold the portfolio. What happens when rates go up 300 to 400 basis points (back to normal) and these gains turn into losses and lower capital ratios. To offset this risk, we would need to hold higher capital ratios, we might have to shorten the maturity of our portfolio to lower volatility, thus hurting profitability, classify more securities as held to maturity which lowers our flexibility, and will hurt lending, as we have less capital to support lending and serve our community. When the economy improves, rates will go up, and banks will have unrealized losses, which will drag down capital, which will slow lending, when it is most needed and the loan demand is there. Also, when rates increase and banks have unrealized losses, this is not a one year problem, it is a multiyear problem. To respond to shrinking capital, lending will drop and the local economy and our community will contract. While we could transfer securities to “Held to maturity” to get around this, that move would greatly limit our flexibility. Banks need the ability to react to changing liquidity needs, changing tax laws, and the ability to meet future uncertainties.

<u>Effect of higher risk weights on residential mortgage loans</u>

The proposed rule does not recognize private mortgage insurance. Also, <u>nowhere are existing loans grandfathered</u>. Appears there would be no incentive to make 2nd mortgages. We are one of the 2 largest mortgage lenders in our market, these risk weights as proposed will limit our lending activity. We are already having smaller community banks around us asking our bank to consider doing their real estate lending, because they just can’t keep up with the changes. Is that what we want for America? We have always had strong real estate underwriting and our losses over the years have been very minimal. Here we will be making loans to fit into the rules, not trying to make loans to serve our customers’ needs.

Laws and regulations surrounding real estate lending are a burden and don't do much to improve the credit quality of the loan.

Proposed rule regarding home equity loans

Again, under the proposal, I don't see any reason for us to make 2nd (junior) mortgage loans.

Proposed rules affecting "High Volatility Commercial Real Estate" Loans

It does not appear that existing loans are grandfathered, which would have a negative impact on our bank. Also, the viability of many small communities is their small business and commercial real estate loans. If implemented as proposed, our capital will be impacted immediately and will limit this type of lending going forward.

The impact that these proposed rules will have on our community

We do real estate lending to a niche market to help attract professionals to our area. In this market we do a lot of high LTV real estate loans, and have never lost a dime, while helping out our community. BASEL III as proposed will cause us to rethink this strategy and greatly impact our community. As I see it, BASEL III will reduce lending overall and will reduce our desire to work with past due borrowers.

The time, effort and cost required to reevaluate all our existing loans, will be enormous, plus the ongoing effort to comply with BASEL III will be a burden on our bank. While also difficult to implement, existing loans need to be grandfathered, they were made to comply with the rules in effect at the time we booked the loan. Also, I doubt there will be little tolerance for error under BASEL III, and with capital since a critical component of banking, chances for errors is much higher under BASEL III.

Summary

I believe BASEL III should be scrapped and everyone should start over.

We appreciate the comment period being extended, however, if approved as proposed, we need more time to implement and recommend the start date be moved to 1/1/14.

There is no way a one size fits all capital standard should apply to $50 million banks and also apply to the largest banks in America. The Federal Reserve exempted Bank Holding Companies under $500 million, however, BASEL III applies to banks under that holding company. At a minimum, banks under $500 million should be exempt from BASEL III.

Also, the 1.25% limitation of the loan loss reserve for risk based capital needs to be removed, it makes no sense.

As proposed, BASEL III will drive capital from banks, and I worry that small banks, that are the cornerstone of many communities, will have to merge or consolidate, which only makes the big banks (too big to fail) even bigger.

Everyone should be working to help improve the economy and get people back to work. BASEL III will not help the American economy grow and will hurt smaller rural communities in the heartland of America.

Again, thanks for the opportunity to comment on BASEL III.

Dave

David W. Woodcock, President / CEO
Farmers Trust and Savings Bank
125 West 4th Street, POB 7980
Spencer, Iowa 51301-7980
Direct 712-580-7024
Phone 712-262-3340, ext 7024
Fax 712-262-9511
email: david@farmerstrust.com
www.farmerstrust.com