

October 10, 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 the opportunity to provide comment on the Basel III proposals¹ that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I am the President of the Franklin State Bank in Franklin, MN. We are a \$27 million bank in Southcentral Minnesota that originates and holds, in our loan portfolio balloon residential real estate loans. As a community banker for the past 20 plus years, it has been my experience that these balloon mortgages are the lowest risk loans in our portfolio. It is my understanding that under Basel III, these loans will be given a higher risk weighting and require a higher level of capital, which makes no sense. I would like to know whether there are any statistics which support balloon residential mortgages that are originated and held at community banks as being higher risk assets? We are the only residential lender located in our community of 500 people and I'm concerned as to what impact Basel III will have on our ability to continue offering residential real estate loans, which represent 20% of our loan portfolio.

There are other concerns which I have related to Basel III, not the least of which is the amount of time that I will need to spend complying with this 700 page regulation without any foreseen benefit to the safety of the banking system. Basel III is not designed for community banks and should not be implemented to include community banks. Please consider the negative impact that this regulation will have on the viability of community banks and exempt us from compliance with Basel III.

¹ The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Sincerely,

Scott Nissen

President [Begin your comments here...]