From: Katie Jeffers <kjeffers@btcbank.com>
Sent: Wednesday, October 10, 2012 4:34 PM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

BTC BANK
3606 Miller St.
Bethany, MO 64424-2721

Community Minded...Just Like You.
Phone: 660-425-7285
Fax: 600-425-3294
www.btcbank.com
MEMBER FDIC

October 10, 2012

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 proposals 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. Community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets, therefore, community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. Basel III was designed to apply to the largest, internationally active, banks.

The inclusion of accumulated other comprehensive income in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. For my Bank this represents unrealized gains and losses on investment securities held available-for-sale. As interest rates rise, fair values will fall causing the balance of the unrealized gains to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances, although, the management style and conservatism of my Bank will not have changed.

Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Additionally, these changes in risk-weighting will further penalize community banks for mitigating interest rate risk in their asset-liability management. Community banks will be forced to originate only 15 or 30 year mortgages with durations that will make their balance sheets more sensitive to changes in long-term interest rates. Another setback will be that community banks will be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

Community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The largest banks operate purely on transaction volume and pay little attention to the customer relationship. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage their ability to absorb losses.

Sincerely,

Katie Jeffers
Chief Financial Officer
BTC Bank
3606 Miller St.
Bethany, MO 64424
(660) 425-7285