THE BANK OF TIOGA

BOX 429 TIOGA, NORTH DAKOTA 58852 701-664-3388

October 11, 2012

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

RE: Basel III Accord

Dear Mr. Feldman:

I am writing to express my concerns over the impact of Basel III proposals to our $120 million community bank.

I understand the importance of a strong and viable capital base but am deeply concerned that standards developed for large/complex institutions will have negative unintended consequences if applied to community banks. Community banks differ significantly in size and scope and do not participate in risky activities such as credit default swaps and derivatives. They do serve as the primary source of personal and small business lending in the communities they serve and have a vested interest in the success of those communities.

I simply request that the proposed new rules not apply to community banks for the following reasons:

Unrealized Gains/Losses on AFS Securities – Community banks generally utilize their securities portfolios to manage liquidity and interest rate risk and not for trading or short term profit taking. It is important that they be able to keep a majority of securities in AFS to occasionally change a position to provide liquidity or for other appropriate reasons. In the current low interest rate environment, most community banks would see enhanced capital levels. When rates eventually rise, banks could see those unrealized gains turn into unrealized losses which could significantly reduce Tier 1 capital.

Single Family Construction Loans – Community banks generally utilize conservative underwriting standards. Requiring a risk weighting increase of 50% in capital requirements for SFR construction unless the homebuilder also provides 15% of appraised value could create liquidity concerns for homebuilders and slow the development of much needed single family housing in our area.

Balloon Type Mortgage Loans – Our bank has utilized balloon structures in conventional residential mortgage loans to manage interest rate risk for years. These loans would receive a punitive risk rating under the proposed rules.

Increased Compliance Burden –The regulatory burden today on small community banks on a relative scale is already extremely difficult to manage. This proposal will be complex and cumbersome to comply with.

Difficulty in Raising Additional Capital – Community banks have limited capital sources relative to large publicly traded banks. Our capital is used to meet the needs of our customers including small businesses which employ people, pay taxes and keep our community viable. Our ability to serve them will be hampered if we are subject to this proposal.

I respectfully request that you give consideration to allow community banks under an appropriate size level to remain under current capital standards as the proposed rules will place smaller banks under an ever increasing competitive disadvantage and in the end negatively affect customers.

Sincerely,

David A. Grubb
President/CEO