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September 27, 2012

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

Re: FDIC RIN 3064-AD95, FDIC RIN 3064-AD96, FDIC RIN 3064-AD97

Dear Mr. Feldman:

This letter of comment is in response to the Basel III Notices of Proposed Rulemaking to incorporate revisions by the Basel Committee on Banking Supervision.

Our bank is a small, community bank located in South Central Illinois. Our assets are $265 million and we have trusts under management of $72 million. Our six branches are located in smaller rural areas ranging in population from 800 to 12,000. We are heavily reliant on agriculture and home mortgage lending, though we question how much longer we can continue to do mortgage lending due to the onerous regulations which are evolving out of Dodd-Frank.

I would like to emphasize that I am supportive of strengthening the quality and loss absorption safeguards in financial institutions. Our bank has leverage capital of more than 9 percent tier 1 capital, risk based capital of more than 13 percent and loan loss reserves over 2 percent. Our goal is to focus on increasing capital and maintaining it above 10 percent. This is accomplished through sustained earnings. We continue to pay a shareholder dividend from the bank through the holding company, though it is a meager .5 percent of book value. This leads me to one of my concerns. Small communities do not have ready access to capital. Rather, we have to earn our way to raising capital. Potential shareholders are not readily willing to invest in privately held banks like ours since the dividend is low and the re-sale of stock is limited. Hence, capital preservation is precious and the proposed rules only serve to reduce capital as I will describe below.

First, with regard to securities, I have major concerns about the inclusion of gains and losses on available-for-sale bonds in the common equity tier 1 computation. We are currently in a rate environment that is near an all-time low.

Most bankers would agree that rates will increase rapidly at some point. One only needs to look at the 2004-2007 interest rate increase of 425 basis points to demonstrate how rates can move this quickly. At a 4 percent increase rate shock, our $80 million portfolio which now enjoys a $2 million unrealized gain would shift to over a $3 million loss. To reduce volatility, banks will shorten durations and this only serves to lower yield which, in turn, will lower earnings precisely at a time when earnings are needed to boost capital. In my judgment, this is a deleterious proposal. Due to the forced reactions banks would have to make, another consequence of shortening durations is the impact on municipalities dependent upon financing through long term bond issuances. Long term municipal bond investments will no longer be purchased by community banks in my opinion.

Second, it is easy to understand the regulators' concerns about the housing industry and, therefore, on risk weighting proposals on 1-4 residential mortgage loans. However, I would submit that the problem of the housing industry was a perfect storm that centered upon unregulated mortgage brokers, unregulated appraisers, and underwriting issues which largely existed in major metropolitan areas. These issues are not prevalent in most community banks. But, in the Basel III proposal, the regulatory agencies have adopted a "one size fits all" approach to the risk weighting. In our case, the higher risk weighting on 1-4 mortgages and on home equity loans will simply mean additional capital must exist. The proposal continues a trend of over-regulations that pushes banks out of residential lending. That means less credit is available to consumers and less income to banks.

In summary, I believe the proposals are too inflexible and will lead to smaller community banks exiting the industry. In many instances small banks are the only source of credit in smaller towns. I believe that Basel III further accelerates the exodus of small banks and would be detrimental to small communities. These are the very people that really had little to do with the financial meltdown, yet will suffer the consequences of Basel III, if adopted.

Thank you for allowing me to comment on the proposed rulemaking.

Sincerely,

R. Kent Redfern
President and CEO
NMLS #716577

RKR:mjr

Cc: The Honorable Richard J. Durbin
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The Honorable Mark S. Kirk
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The Honorable Jerry F. Costello
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The Honorable Timothy V. Johnson
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