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October 4, 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 approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am the president and CEO of Horizon Bank located in Waverly, Nebraska. We have branches in Superior and McCook, Nebraska. Horizon is a small bank with approximately \$200 million in assets. Our communities are small and dependent on community banks for their financial needs including home loans, agricultural related loans, business loans and consumer loans. Many of the proposals in Basel III will have a negative effect on not only Horizon Bank but many other small, community banks.

I will not detail each of the 12 provisions, but have these comments:

- All banks, including Horizon, have great fluctuation in gains and losses on securities totally due to changes in interest rates. Many smaller banks including Horizon Bank are invested primarily in U.S. government and agency debt obligations with little if any credit risk. Consideration of types of investments should be part of this provision.
- Mortgage lending in smaller banks has become more difficult with the new additional provisions primarily from Frank Dodd. Several parts of Basel III will have a negative

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*.

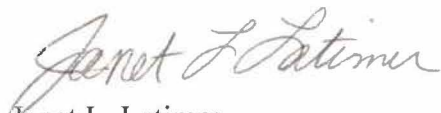
impact on mortgage lending including the proposed rules concerning mortgage servicing assets, the proposed assigned risk weights to residential mortgages, the credit enhancing representations and warranties affecting mortgages sold on the secondary market, and changes in home equity lending especially in junior liens and the situation of a bank having both a first and second lien position very possibly could end mortgage lending in smaller banks. This has already become an issue with new regulation in our two outstate branches as the property values are extremely low and the sales comparisons are very limited. I have great concerns how folks in rural communities will be able to obtain a loan for a home. Basel III could very well be the straw that breaks mortgage lending for all small banks and for all rural homeowners.

- No one can disagree that delinquent loans become a risk to a bank's success. However, current ALLL measures have shored up the procedures to allocate funds for problem loans. A potential hit to capital could very well lead to less customer friendly work out strategies and once again have a very negative impact on bank customers.
- Horizon Bank is an investor in Low Income Housing Tax Credits and as such has a great opportunity to help provide housing for extremely low income individuals and families as well as the Federal tax credit benefit. It also helps meet the CRA needs of our bank and especially the large banking institutions. If it is determined this a deferred tax asset many bank investors may determine the impact on capital is not worth the benefit of the investment. The greatest impact will be to the folks that live in the affordable housing.
- My final comment is the great costs to implement more and more regulations and the possibility of banks closing down department because of costs and complexity to comply with and maintain adequate capital. While some of the recommendations of Basel III as well as Dodd Frank may protect the financial world from future crisis, the impact on our communities, our work force and on our customers is great. Some programs will no longer exist and others will have additional fees to support our additional costs. And some loans will no longer be available especially in rural America.

Horizon Bank is a well capitalized bank with an extremely low delinquency rates and almost no loan loss over the last 15 years. We employ 29 people and serve our three communities well. We have been "the community bank" for Waverly for 105 years owned by the same family for 53 years. We have and will continue to follow the rules and regulations. Please consider all of the impacts Basel III will have on not only the banks but just or more importantly on the customers and communities we serve.

Thank you for the opportunity to express my thoughts on Basel III.

Sincerely,



Janet L. Latimer
Director, President & CEO