

October 17, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve  
20<sup>th</sup> Street and Constitution Avenue, N. W.  
Washington, D.C. 20551

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

Office of the Comptroller of the Currency  
250 E. Street, SW  
Mail Stop 2-3  
Washington, D.C. 20219

Re: Basel III Capital Proposals

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment.

Lewiston State Bank is a \$250 million community bank located in Lewiston Utah. We opened our doors in September of 1905. For the past 107 years we have been striving to meet the banking needs of our customers that live in the small communities located within our footprint. We have operated for the most part on a relationship-based business model that is specially designed to meet our customer's needs on a long term basis. I believe this has contributed to the success of not only our individual customers but also to the communities that our customers live and work in. Thankfully during our existence we have not engaged in any highly leveraged activities that would have severely depleted our capital levels. This is one of the reasons that I believe Lewiston State Bank and other community banks should be allowed to operate under the current Basel I requirements. Basel III is designed for the largest, internationally active banks. We do not operate as they do.

Presently Lewiston State Bank shows an "Unrealized Gain on Securities" of \$1.7 million. We are the first to realize that this adds significantly to our capital at the present time. But as interest rates rise, as I am assuming they will someday, that "unrealized gain" will turn into an "unrealized loss" and thereby deduct significantly from the capital. According to our calculations if interest rates rise 300 basis points, our "unrealized loss on securities" would go to \$2.0 million. This would have a devastating effect on our banks tier one ratio. As a small bank we put our extra funds in securities until needed by increased loan

*Established 1905*

17 East Center, P.O. Box 32 Lewiston, Utah 84320

Phone: 435.258.2456 Toll Free: 800.233.6510 Fax: 435.258.5346 Web: [www.ls-bank.com](http://www.ls-bank.com)


demand. Lewiston State Bank does not have the desire or the expertise to enter into some type of hedging to mitigate this risk. Community banks should continue to exclude the Unrealized Gains and Losses" from the capital measures as they are currently doing.

The proposed risk weights as being proposed are very complicated and this will be an onerous regulatory burden for small banks like Lewiston State Bank. Many of the residential loan products that we provide to our loan customers are the type of loans that will be assigned higher risk weights. This will force our bank to discontinue the products that have served our customer through the years such as interest only and balloon loans. This just doesn't seem to help the average customer looking for residential loans. Additionally these new risk weights will force our bank to invest in software upgrades just to track all the data required by Basel III.

Accessing additional capital for a bank our size is a very challenging task. The only two ways that we have to raise additional capital is either by stockholders coming to the table or by accumulation of retained earnings over time. During the economic challenges of the past few years Lewiston State Bank has been able to report a positive net income every quarter. The outlook to continue that in the face of increase regulatory burdens is questionable. But even if we do continue to show a profit it takes time to build additional capital. Now that there will be a "conservation buffer" that task seems almost insurmountable. As we all know with the current low interest rate environment, community bank profitability has diminished further hampering our ability to grow capital.

I realize that there is great concern about banks having sufficient capital. I too appreciate having sufficient capital to feel comfortable in our lending and investment opportunities. I believe we have that comfort zone at the present time under Basel I. For the risk profile of Lewiston State Bank, the Basel III proposal will make serving our customers more costly and perhaps even drive us out of some products that we have been providing to them. I do not see anywhere in the Basel III proposal where the customer is mentioned or where they will be better served by this regulation. With the slow economic recovery I would think we would be better served by helping community banks meet the lending and banking needs of the public.

Thank you,

A handwritten signature in blue ink that reads "Anthony J. Hall". The signature is fluid and cursive, with the first name "Anthony" and last name "Hall" clearly legible.

Anthony Jon Hall

President/CEO