November 13, 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

Ladies and gentlemen:

I appreciate the opportunity to offer comments 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. I am employed by, and serve on the board of directors of, a small community bank in northern Minnesota. The issues surrounding the implementation of Basel III potentially affect the wellbeing of our bank and my livelihood.

Community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. As I understand it, Basel III was designed to apply to the largest, internationally active, banks and not community banks. Community banks operate on a relationship-based business model specifically designed to serve customers in our 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. Our risk management system works; this approach will work more appropriately for the largest banks.

The proposed risk weight framework under Basel III is very complicated and will be an onerous regulatory burden that will create additional cost for our banks. Increasing the risk weights for residential balloon loans, interest-only loans, and second mortgages will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Additionally, higher risk weights for balloon loans will further penalize community banks for mitigating interest rate risk in our asset-liability management. Many community banks will either exit the residential loan market entirely or only originate those loans that can be sold to a GSE. Second mortgages will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

We service all of the loans we make to individuals. Penalizing the existing mortgage servicing assets under the proposal is unreasonable for those banks like ours who have large portfolios of mortgage servicing rights. Any mortgage servicing rights existing on community bank balance sheets should be allowed to continue to follow the current risk weight and deduction methodologies.

I trust you will take my comments into consideration you formulate a policy direction on this issue that affects thousands of community bank employees around the United States. Thank you for listening.

Sincerely,

Edward M. Zabinski
Senior Vice President

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