NMSB
NORTHEAST MISSOURI STATE BANK
Your Home Owned Bank

LA PLATA STATE BANK
(A Division of Northeast Missouri State Bank)

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., 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
Attn: Comments/Legal ESS
Federal Deposit Insurance Corp.
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

We appreciate the opportunity to provide comment on the Basel III proposals that have been issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Community banks, such as ours, a $90 million bank in rural Northeast Missouri should be allowed to continue using the current Basel I framework for computing their capital requirements. Basel III was designed to apply to the largest, internationally active banks and not community banks. Community banks have not engaged in the activities that created panic in the financial markets. They operate on a relationship-based business model that is designed to serve customers in their communities on a long-term basis. This model contributes to the success of community banks all over the United States by their practical, common sense approach to manage risk. The largest banks operate purely on transaction volume and pay little attention to the customer relationship. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage their ability to absorb losses.

A major area of concern for our bank is the provision requiring all banks to mark to market their available for sale securities. Our bank has a very conservative investment philosophy. Our bond portfolio totals approximately $48 million and is made up primarily of government backed agencies and general obligation municipals. These investments have little, if any, risk of loss, but are subject to interest rate risk, which we manage closely. Currently during a period of historically low rates, we have a positive market value adjustment in our bond portfolio of approximately $1,000,000.00. If we rate shock our portfolio upward 300 basis points, it would create over a $5.5 million change in the market value adjustment and dramatically decrease our capital under Basel III. This adjustment to capital is made even though nothing changed other than the interest rate environment. Over the course of history we have generally held our bonds to maturity. Our legal lending limit could be affected at a time when our farm customers need funding for crop input and cattle purchases as well as small business and families needing operating credit and consumer purchases.

Another concern is the overall complexity required to interpret and follow the rules of the Basel III proposal. Most community banks do not have the staff or computer systems that can generate the detailed information needed to report under Basel III.
The full impact on our bank to understand the rules, train our staff on how to apply the rules to our balance sheet, code loans to deal with the new risk weights, etc has yet to be determined but will substantially hit our bottom line and reduce needed capital to continue providing credit to our community.

We would support an increase of capital that banks hold at a reasonable level and a more simplistic calculation for that capital. We strongly urge you to consider either starting over on the accounting requirements for banks or exempting community banks from these rules.

Thank you for your consideration.

Sincerely,

Randy Riley

Randy Riley
CEO/Chairman

RR/nam