



SIUSLAW
FINANCIAL
GROUP

Siuslaw Bank
Siuslaw Mortgage October 19, 2012

Robert E Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Email: comments@FDIC.gov Basel III FDIC RIN 3064-AD95, RIN 3064-AD96,
and RIN 3064-D97

RE: FDIC – Basel III RIN 3064-AD95, RIN 3064-AD96

Dear Mr. Feldman:

We appreciate the opportunity to provide comment 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.

We are concerned about the future given the severity and complexity of the rules. It is obvious to us that it would seriously affect and reduce the number of community banks. We urge you to reject Basel III for community banks, as there is surely a less complex process to assure they have capital commensurate with risk.

Mr. Thomas Hoenig, in a recent speech, "Back to Basics: A Better Alternative to Basel Capital Rules", says it succulently as he argues the Basel approach is "a system fundamentally flawed." Moreover, it uses "highly arcane formulas, suggesting more insight and accuracy than can possibly be achieved."

"Applying an international standard to community banks is illogical," Hoenig argues. In addition, we must add, the complicated and expensive practicalities of operating Basel III for smaller banks have clearly not been thought out. Hoenig concludes that it would be better "to acknowledge our limits, to simplify the system "and "reject the Basel approach."

Siuslaw Bank believes in maintaining strong capital and by policy, our capital ratios must exceed regulatory limits.

Johan A. Mehlum
Chairman of the Board
Chief Executive

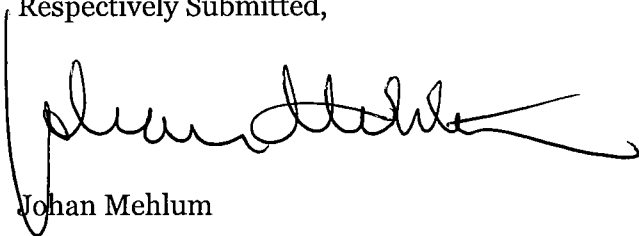
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Regarding Siuslaw Bank, we have huge concerns in the following areas:

- Our holding company, Siuslaw Financial Group, Inc. has a Trust Preferred Security that matures in 2034. The regulatory examination process will certainly question our plan to retire the debt. It should be grandfathered rather than accelerated to ten years.
- New Risk Weighting for mortgage loans will seriously eliminate some of the lending products we provide in our communities.
- The change to Other Comprehensive Income for securities will have serious consequences when rates rise because of their volatility. We will need to hold additional capital that will accordingly reduce lending.
- Siuslaw Bank services investor portfolios twice our asset size and has always conservatively valued our MSR's. Additional deductions to capital would likely limit our ability to grow the portfolio. Consequently, Siuslaw Bank must evaluate whether we should sell our portfolios, lay-off staff and assess the future of our mortgage banking origination department.

The unintended consequences for community banks will cause many to evaluate their lending products, constrain the raising of capital, and severely affect our communities. Please consider the ramifications as you review the comment letters.

Respectively Submitted,

A handwritten signature in black ink, appearing to read 'Johan Mehlum', with a long horizontal flourish extending to the right.

Johan Mehlum