Security First Bank
OF NORTH DAKOTA

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October 11, 2011

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:

We are adamantly opposed to the application of the proposed Basel III capital standards to community banks of less than $10 billion in size. Community banks were not the cause of the financial crisis and should not be punished because of it. Please note the financial crisis was not caused by residential mortgages originated by community banks. Further the Basel III rules as proposed are terribly flawed in the following ways among others:

1) Accumulated Other Comprehensive Income should not be included in Capital. Its inclusion will lead to wildly fluctuating capital ratios when interest rates are moving. Our bank has rarely if ever sold investments prior to maturity during the 44 years that I have been at the bank. Further, including AOCI will cause community banks to shorten their investment portfolios and thereby reduce their earnings thereby putting further pressure on capital. In addition, with rates as low as they are, rates will likely only rise in the future, and when

that happens including AOCI in capital calculations will have disastrous results for most community banks. Our bank's ALM model, which is back tested for accuracy every quarter, indicates that out bank will benefit if interest rates rise, yet including AOCI will cause our capital to decrease. Further, this focus on AOCI is a distorted view because it only looks at the change in the value of the investment portfolio when rates change, and it gives no consideration whatsoever to the opposite and offsetting change in value that occurs in the value of the bank's liabilities when rates change.

2) As FDIC Director Thomas Hoenig accurately has pointed out, the proposed rules are incredibly and unnecessarily complicated and hard to understand. Further very few community banks, if any, have the current ability to pull the necessary data to calculate their capital under the proposed Basel II rules. This will create a data gathering nightmare for community banks.
3) Having an arbitrary number for the inclusion of loan loss reserves in capital such as 1.25% makes no sense whatsoever. All loan loss reserves should be included.
4) Singling out residential mortgage balloon notes for harsher capital treatment makes no sense whatsoever. Nearly all community banks finance homes with balloon notes to manage interest rate risk, and they have done this successfully without any addition risk. Our bank has not experienced a loss on a residential balloon mortgage in the 44 years I have been at the bank. Further, there is no data that these types of mortgages in community banks have been more risky than any other type of home mortgage. In addition, these types of loans are often the only home loans available to community bank customers and this rule will cut those customers out of the housing market. For example, in many rural areas like some of the one we serve, our customers cannot qualify for secondary market rules because there are few residential sales and therefore not enough comparable sales to meet secondary market appraisal requirements.
5) The proposed harsher capital standards for residential mortgages are contrary to all efforts to get the housing market back on track. These harsher standards will absolutely act to reduce the amount of credit for housing, which is contrary to the Fed's goals. These propose rules are tantamount to shooting a patient in the head while he's on the operating table.
6) The HVCRE rules will bring a complete end to the SBA 504 program and thereby reduce economic activity in an already morbid economy.
7) The Basel III residential real estate capital calculations rules are insanely over complicated and I know of no community banks that have the data systems in place to automate these calculations. Further the thought of constantly

updating the loan to value ratios of each and every residential mortgage on a community bank's books would be every operations officer's worst nightmare.

8) It is amazing counterintuitive that under these rules a community bank that takes an existing unsecured loan, and then later tries to strengthen its position by taking a residual real estate mortgage to further secure that loan, could cause its capital requirements to increase. In fact, these rules in many instances will act to encourage a community bank to release residential mortgages because they will then have an unsecured loan which will require less capital.
9) These proposed rules will make it much more difficult for community banks to manage interest rate risk.

Further, these Basel III rules will take away much of the latitude within which community banks have to operate. These rules will radically change and harm the community bank business model that has served American so well for the past 100 years. These rules will reduce lending in America, they will act to prolong the current weak economy, and they will severely limit economic growth in the future.

Finally, the comment period should be extended. If the regulators have proposed something so complicated that they couldn't come up with a capital calculator for months or until late September for banks to analyze this how this will affect them, how can they expect community banks to thoroughly analyze these rules and their effects upon them in one month.

Respectfully,

James M. Goetz
Chairman & CEO