



September 10, 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

Mike Enzi
United States Senator for Wyoming
379A Senate Russell Office Building
Washington, D.C. 20510

John Barasso
United States Senator for Wyoming
307 Dirksen Senate Office Building
Washington, D.C. 20510

Cynthia Lummis
U.S. Representative for Wyoming
113 Cannon House Office Building
Washington, D.C. 20515

Re: Basel III Capital Proposals
OCC Docket # 2012-0008, 0009, 0010
FRB Docket # 1442
FDIC RIN 3064-AD95, RIN 3064-AD96, RIN 3064-AD97

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

As a small, but very successful, community bank located in southeast Wyoming, we have grave concerns about the application of Basel III to small banks. As with almost all banking regulations over the past several years, the overreaction to the mortgage mess did not actually address the problem and those that created it, but went after all banks with a vengeance i.e., Dodd-Frank, the new CFPB, the SAFE Act, Basel III, etc.

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The proposed Basel III capital requirements not only fail to recognize that most community banks are not the problem, but places onerous requirements on those banks. One example is the new requirement that the market value of our securities portfolio (which is primarily for securing municipal deposits) must flow through and be taken into account in computing capital ratios. We do very little trading of our securities, so this is form over substance. Since the vast majority of our securities are not traded, the constantly fluctuating market value is not going to be realized, gain or loss. The effect on our capital ratios could be dramatic, even though never realized. This is a needless exercise for banks that do very little trading and are not publicly traded. The real fallacy to this is that you could ask three different sources to give a "market value" for the same security and get three different answers. What are we accomplishing requiring banks that essentially don't trade, to do this?

Another glaring example of the failure to recognize the unique position of community banks is with the proposals for risk weighting residential mortgage loans. The proposal uses a series of criteria to categorize these loans based upon loan-to-value ratios and product features into Category 1 or Category 2 loans. Most community banks originate good quality, conforming residential real estate loans that are then sold. In our situation, we have never had one loan rejected or turned back due to misrepresentation, fraud or poor underwriting. Furthermore, the ones that we kept on our books have not resulted in any losses for many years. Despite this, we will now be required to go back and analyze each loan for its' specific attributes, categorize each loan, then continuously track and maintain all this data so we can properly allocate varying levels of capital to these loans. Wouldn't it make more sense to require that capital levels for these loans be based upon loan performance? As performance wanes, evidenced by data we currently have, in the form of past due loans, capital levels would be increased. This process would require those banks that have lower quality portfolios to have more capital without requiring each bank to accumulate massive amounts of new data or unnecessarily hold higher capital levels for no reason.

This isn't the only problem with residential mortgages. Many community banks, us included, offer Home Equity Lines of Credit (HELOC). It is a product that allows customers with good equity in their homes and good credit history to have a line of credit available as personal financial needs arise. Once again, our bank has never suffered a loss from a HELOC. Under the proposed rules, if we hold a first mortgage on a property and also want to do a HELOC as a second mortgage, it will almost automatically result in both loans being classified as Category 2, requiring higher capital levels. This result occurs regardless of the quality of the credit or the borrowers. However, if the first mortgage and the HELOC are done by separate banks, then neither is considered Category 2. This does not make sense. Once again, if it is necessary to adjust capital levels due to HELOC's, make the adjustment be based upon the performance of that part of a bank's loan portfolio, not merely the existence of HELOC's.

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There are so many issues with the proposed Basel III rules, pertaining to community banks that this letter could go on a long time. The simple solution, at least for small, non publicly traded banks, is to use the current rules for measuring capital levels, but require higher levels of capital if loan portfolio performance declines, CAMELS ratings drop to a concerning level or a bank is put under Agreement or Order.

The best defense against losses and the tapping of the FDIC fund has always been the amount that banks set aside in Loan Loss Reserve. Keeping adequate reserves would alleviate most, if not all, all the purported reasons for BASEL III, at least for well-managed community banks. Unfortunately, the SEC and FASB, in response to the actions of a handful of larger, publicly traded banks, no longer allow banks to increase Reserves in good times to prepare for the tough times. Not only is this contrary to basic common business sense, but the SEC/FASB position contributed to increasing the severity of the mortgage mess. Perhaps a change to this practice would protect the public and the insurance fund much more effectively than Basel III.

We will end this letter with one final observation about Basel III. The proposed rules set certain "minimum" capital levels for banks. On its' face, that seems practical, similar to what is in place now, However, in addition to the required "minimums", there is a new, additional layer of required Capital called a Buffer Zone. This puts the spotlight squarely on the arbitrary nature of the new "minimums". It is apparent that the creators of Basel III have no confidence in their new system if they felt the need to also require an arbitrary Buffer Zone of capital above the minimums. Where did these Buffer Zone levels of capital come from? What is the point of requiring a massive amount of data generation, tracking and risk weighting if the end result is to just require an arbitrary Buffer Zone of capital?

These proposed rules need to be rejected in their entirety. At a minimum, all non-publicly traded community banks should be exempted and continue to maintain capital levels under essentially the current system. We are not posing the risk to the taxpayers or the FDIC fund.

Sincerely,

Ted L. Bentley

Chief Executive Officer / President

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