Hastings City Bank

October 9, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Comments on Proposed Regulation Changes for:
Basel III Minimum Regulatory Capital Ratios (**RIN 3064-AD95**), and
Standardized Approach for Risk-Weighted Assets Proposals (**RIN 3064-AD96**)

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the aforementioned 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 very concerned about the impact of these proposals on Hastings City Bank. We are a $250 million assets bank located in rural Michigan communities. Because of our historically conservative underwriting standards, Hastings City Bank has weathered the latest downturn in the economy very well, as the bank has in many previous economic downturns. Our loan portfolio consists mostly of loans secured by real estate, primarily 1-4 family residential. Our past due and non-performing loans have been lower than virtually all Michigan banks in our asset size range. However, close to one-half of those loans secured by real estate fall into Category Two loans, tagged as high risk. Most will be considered "Category Two" because of a balloon feature. We have numerous concerns for community banks like Hastings City Bank in these proposed rules but will focus on just a few areas in this comment.

Implementation of the Standardized Approach for Risk-weighted Assets will be punitive to Hastings City Bank because we have chosen to manage interest rate risk and offer competitive rates to mortgage holders with the balloon feature. While our conservative underwriting standards will allow a portion of our mortgages to receive the lower 35% risk rating, more will be moved from 50% to 150%, simply due to the balloon feature. A balloon feature alone does not create this kind of risk if loans are prudently underwritten. The Standardized Approach takes no consideration for underwriting. If banks are penalized for products that help manage interest rate risk in a time where rising rates are lurking on the long term horizon, fewer loans will be made. We all want to avoid the catastrophe of the 1980's when banks were stuck with long-term low rate mortgages when rates rose sharply. The Standardized Approach is flawed and should be rejected.

150 West Court Street Hastings, MI 49058-1892 Phone 269-945-2401 Fax 269-945-9777 www.hastingscitybank.com

Another concern in the new Risk Based Capital Calculations is heavier risk weighting of loans when past due. A more appropriate measure would be to allow the full Allowance for Loan Losses to be included in capital calculations. Banks that are prudently managed are providing for loans at risk in the Allowance for Loan Losses. We do not need these add-ons to capital calculations.

Finally, the Basel III Capital Rules were written to improve consistency in reporting on an international level. Very few community banks like Hastings City Bank are active in the international investment arena. These rules should not be pushed down to community banks that exist to provide credit services to the communities in which they are located.

The proposed Minimum Regulatory Capital Ratios and the Standardized Approach for Risk-weighted Assets may be applicable to banking organizations that made non-traditional mortgages and increased risk by dropping under-writing standards, or to large organizations that conduct transactions on a global level. We do not think they are applicable to the average community bank and ask that community banks be specifically exempted from these proposed rules.

Thank you for your consideration.

Sincerely,

Joan M Heffelbower

Joan M. Heffelbower
Executive Vice President & C.F.O.