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October 10, 2012

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

Re: FDIC Notice of Proposal Rulemaking
Basel III Proposed Mortgage Servicing Assets (MSA's)
RIN 3064-AD95
RIN-3064-AD96

Dear Mr. Feldman:

Thank you for the opportunity to provide comment on the Basel III proposals. Our financial institution is a State regulated FDIC insured bank with assets averaging about eight hundred million. The major subsidiary of the bank is a mortgage banking company started in 1990 which specializes in apartment and senior housing finance. It's servicing portfolio is about two point six billion, of which more than 90% comprises FHA or RHS insured mortgages issued in GNMA securities.

The mortgage banking company entered the banking industry in 2002 and then made a second bank acquisition in 2009. Both transactions prevented the FDIC or State Department of Financial Institutions from closures. Our institution is one of the best performing banks in Indiana. Our ability to grow and our future performance will certainly be adversely affected with the proposed eligibility criteria for mortgage servicing assets ("MSA"). MSA's are created from the service fee income generated by many different types of loans. Examples would be auto, boat, credit card and real estate.

The proposal to change the eligibility of the MSA's is a reaction to the performance of sub-prime and single family mortgages and their related MSA's since 2008. Not all MSA's are the same, yet the Proposal treats them that way.

The servicing stream for high risk non-call protected MSA's probably did lose value in the 2008 meltdown. The prime example of those MSA's would be sub-prime residential loans which not only lost value as a result of defaults, but in fact, became a liability to the servicing institution because of law suits and increased costs to service. This is perhaps the rational for reducing the eligibility of MSA's from 100% to 10% of CETI capital, and in fact penalizing the remaining 90% of value with a 250% risk weighting. Apparently all servicing income streams are two and one-half times more risky then loans in general and more risky than Goodwill.

This bank specializes in generating and servicing multifamily and senior's housing loans which are FHA insured and sold in GNMA securities or sold to Fannie Mae. These types of loans are call protected which is not the case for single family or sub-prime loans. The MSA's resulting from the securitization/sale of these loans are valued annually by an independent third party who specializes in trading many types of MSA's. This income stream is "bond like" and should be treated as such. We have experienced one default in over thirty-two years and presently have one loan which is over thirty days past due.

MSA's are not good will or deferred tax assets. They produce a monthly income stream. The proposal not only allows for limited recognition of the value (10%) but also treats the balance of the MSA's as a risk to the institution. The approach of one size fits all is wrong and needs to be fixed.

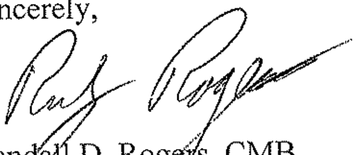
It is not right for financial institutions with assets that have maintained their value through the past five years to be penalized because of the actions of a few. We have already paid a big price through increase in FDIC insurance for the actions of a few.

Presently, our "bond like" servicing comprises 39% of our consolidated net worth. If the proposal were instituted today, assuming an 8% capital ratio, we would have to shrink our asset size by $345,000,000 because of the capital hair cut and risk rating. The alternative is to raise replacement capital of $23,000,000 plus another $4,600,000 associated with moving the remaining 90% of MSA's from zero to 250%. The proposal has wiped out almost 35% of our capital.

We are a privately owned Sub-s institution. I would think raising capital in that amount would be extremely expensive and dilutive for the owners, if even possible. The other alternative is a shrinking of the balance sheet which will hurt profitability especially in this environment of increased regulatory compliance from multiple sources. It also will be counter-productive to this country's need and desire to increase lending. So the result of Basel III is the Big (who have access to capital) will get bigger. What a fantastic consequence.

Our recommendation is to impose these rules on the institutions that Basel was originally intended to regulate. If that is not possible, then a much better distinction needs to be made between the various assets from which MSA's are created.

Sincerely,



Randall D. Rogers, CMB
Vice-Chairman