

From: Nikki Olson [mailto:Nikki.Olson@fnbhenning.com]
Sent: Monday, October 22, 2012 12:22 PM
To: Comments
Cc: Larry Doss
Subject: Comment letter on Basel III

RE: My comments in response to the notice of proposed rulemaking (NPR) on minimum regulatory capital and the standardized approach for risk-weighted assets as proposed by Basel III.

Dear Robert E. Feldman,

As a community banker, I recognize the importance of appropriate levels of capital as a key component of a safe and sound bank and banking system. I have a very vested and direct interest in maintaining a healthy banking system. Maintenance of adequate levels of capital for my bank is not my concern. Rather, my concern is the process and consequences of instituting complex new rules on community banks irrespective of the size or risk profile of the bank.

The Basel III proposals were intended for large, sophisticated financial institutions competing with others of a similar scale across the globe. I am very troubled that our own U.S. regulatory authorities would include community banking in these complex new capital rules. The new capital proposal is unnecessary and a costly regulatory burden that will result in damaging unintended consequences for my bank and quite likely result in further consolidation of the community banking industry.

The proposed "fix" is making life difficult, if not impossible, for my bank and other community banks to survive. If these proposals are applied to community banks, many will decide that the barrage of federal law and regulatory overkill has rendered their business unsustainable.

The ongoing and complex collection and reporting of information on various asset categories required by the proposed rules will further tax the limited resources of my bank. The added cost and time needed to comply with these provisions—without benefit to the bank or the public – are reasons enough to exempt community banks from this proposal.

This could easily create scenarios in which a formerly well-capitalized bank could face severe sanctions due solely to market rate movements. Further, the "mark to market" requirement will require my bank and others to hold more capital to compensate for inevitable swings in interest rates, thus hindering growth and lending opportunities.

Community banks typically invest in issuances of their local governmental entities. The cost of borrowing for these public entities will likely increase as community banks will be reluctant to hold longer maturity securities for fear of rate-driven capital degradation. This could result in a significant negative impact on infrastructure development at the state and local level as well as harm projects that create jobs locally.

The proposed changes, incorporating market rate swings into Common Equity Tier 1 capital, will result in banks moving to shorter maturities, giving up precious and dwindling earnings opportunities, experiencing limited flexibility in managing their portfolio, sacrificing liquidity by moving securities to the "Held to Maturity" bucket, limiting loan growth, and forgoing expansion.

Furthermore the proposed risk weighting to various asset classes will be challenging, expensive, and a strong disincentive for me to provide any lending options for my customers. Specifically this will serve as a strong disincentive to mortgage and real estate lending at my bank, especially loans kept in my banks' portfolio.

Further, the introduction of "High Volatility Commercial Real Estate" (HVCRE), with a 150% risk weighting and limited exemptions will limit my bank's willingness to make these loans and raise borrowing costs in this already challenged market and result in additional harm to an already shaky real estate lending market.

Specific allocations are already made for higher risk, classified, past due and non-accrual loans. It appears that with the additional proposed capital requirements of Basel III are just layered on top of those calculations.

The community banking industry is overwhelmed by government regulation, and this proposal unnecessarily piles on additional regulatory burdens. Ultimately, these burdens will lead to higher borrowing costs and diminished availability of both credit and bank services to consumers, small businesses, and local governments.

The Basel III proposal is counterproductive to my bank, to the local economy, to the state economy and the national economy Therefore the logical thing to do is to exempt all but those complex international banking institutions considered "systemically important" from these burdensome, elaborate, and counterproductive capital rules.

Thank you for the opportunity to comment on these proposals.

Sincerely,

Larry Doss
EVP
First National Bank
PO Box 38
Battle Lake, MN 56515

Nikki R. Olson

New Accounts Representative/Personal Banker

First National Bank of Battle Lake

101 Lake Ave. S. PO Box 38
Battle Lake, MN 56515

Phone: **218.864.5275** Fax: 218.864.5055

www.fnbhenning.com

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