Independence State Bank

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October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governers 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, D.C. 20219

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the 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. Our small independent community bank (Independence State Bank with total assets of approximately $63 million) in west central Wisconsin has struggled the past four years as many banks have during this recent “Great Recession”. Our bank has lost over $4 million of capital and been able to mitigate our losses and been fortunate that ownership has had the ability to do capital injections to sustain viability of our community bank dating back to its origin of 1897, whereby the ownership still remains in the Senty family.

We feel the proposed Basel III regulation is <u>completely</u> wrong for the United States of America and the community banks which act as the engine in so many ways for this country’s economy. The proposed regulatory rules present the following problems:

- Compliance with the wave of current and upcoming regulations is and will tax community banks for years to come.

- Accumulated Other Comprehensive Income (AOCI): community banks are long-term investors and do not actively trade their securities portfolio so including unrealized gains or losses in the securities portfolio is only meaningful in a liquidation scenario.
- Risk weighting will be challenging, expensive and a disincentive to mortgage lending.
- Dodd-Frank specifically allows the existence of Trust Preferred Securities.
- Mortgage servicing asset deductions from capital could impact mortgage availability.
- New restrictions on capital treatment of deferred assets, goodwill and pension accounts will, along with the aforementioned issues, lead to higher borrowing costs and diminished availability of both credit and bank services.

Independence State Bank both purchased and sold Trust Preferred Securities (TruPS). We understand that TruPS issued by Bank Holding Companies under $500 million in total assets will be exempt from this portion of Basel III. The implications of Accumulated Other Comprehensive Income (AOCI) could impact the TruPS we hold in our investment portfolio, as there really is no market for these and subjects the bank to the risk of market valuation. Our bank currently holds $2.25 million of TruPS in our investment portfolio and other than liquidity, we feel these are acceptable investment assets for our bank. Furthermore, the proposed regulation of treating investments "available for sale" to be adjusted quarterly based on current market value on the balance sheet rather than par will lead to more instability in the banks rather than more stability. The process which has been in place for a long time has worked well and to change as proposed is simply not needed. The end result of AOCI "could" impact our small community bank in Wisconsin over $2.25 million. This outcome would be a torpedo to our bank in terms of capital and only would add to the acceleration of consolidation of banks, resulting in few banks for Americans to have access choices to for support.

In conclusion, Independence State Bank is recommending that Basel III <u>not</u> apply to community banks and with the specifics within this letter have expressed the challenges our bank has already sustained/survived and overcome. The proposed regulation of Basel III will be devastating to Independence State Bank and most community banks. Please don't pass the Basel III proposed regulation for community banks!

Sincerely,

Dennis R. Meyer
President/CEO