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October 4, 2012

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219

Thank you for the opportunity to make comments on the Basel III capital rules. By way of background, we are a community bank with total assets of approximately $300 million, serving ten communities thru fourteen locations. I have been employed in the banking industry at the same bank for over 55 years. The bank has survived every economic challenge since 1884.

There is no question that capital levels should reflect the amount of risk undertaken by a banking institution. In this respect, however, Basel III misses the mark. For example:

A. Using loan to value to reflect the risk in a commercial or residential mortgage is a very poor measure. In my experience, cash flow and character are far superior. Over the years, I have made loans to individuals well in excess of 100% loan to value. I have never suffered a loss on any of them. On the other hand, I have had situations of loan to value of 50% or less and suffered loss. Thus, my experience over more than half a century tells me the Basel III loan to value measure is not an accurate reflection of risk. As a matter of fact the FDIC's *Risk Management Manual of Examination Policies* Section 3.2 – *Loans* - states as follows: "Placing undue reliance upon a property's appraised value in lieu of an adequate initial assessment of a debtor's repayment ability is a potentially dangerous mistake."

B. Balloon loans with a loan to value of 80% or less are classified as twice as risky as a 30 year fixed rate loan with a loan to value ratio of 80% or less. Having lived thru the interest rate environment of the late 1970's and early 1980's, I can tell you that the reason

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C. the savings and loan industry failed during that period was due to having a portfolio of 30 year fixed rate loans. Our bank did not and we are still around.

D. The requirement that all investment securities not in the held to maturity category must be marked to market and reflected in capital is also deficient. Loans are not marked to market nor is the liability side of the balance sheet. This is a totally inconsistent position. In addition, during a period of rising interest rates, the reduction in capital due to temporary market loss in the investment portfolio would adversely affect the ability to support a robust lending program, resulting in curtailing potential economic growth.

E. For the most part, Basel III treats all banks the same. In my experience, community banks and the multi national banks have little in common. Seasoned bank examiners can make reasonable judgments relative to the risk profile in a community bank. One would be well advised to allow the current capital requirements to continue to be used at the community bank level, and allow its adequacy to be judged by the supervisory agency. The United States, unlike other countries, has always depended on community banks as accessible and stable banking resource for small business. As acting FDIC Director Martin Gruenberg said on September 14, 2012 in remarks to the American Banker Regulatory Symposium, "Community banks with assets under $1 billion currently represent just over 10 percent of banking assets, yet they provide nearly 40 percent of the loans made by the banking industry to small businesses, extending credit that is essential to job creation."

In closing, for our institution, using the Basel III capital rules will result in fewer loans to our customers and less profit for us. I fail to see how this outcome is desirable for anyone.

Thank you for taking the time to read my comments.

Cordially Yours,

Rudolph E. Farber
Chairman of the Board

REF/tf

CC: Ms. Esther George, Federal Reserve Bank, Kansas City
Senator Roy Blunt
Senator Claire McCaskill
Congressman Blaine Luetkemeyer
Congressman Billy Long
Mr. Frank Keating, American Bankers Association
Mr. Keith Thornburg, Missouri Bankers Association