FIRST UNITED Bank

October 11, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
55017th St. NW
Washington, DC 20429
comments@FDIC.gov

RE: Basel III Proposals Adversely Affecting Small Banks

Dear Mr. Feldman:

The proposed Basel III proposals to change capital requirements create a burdensome process to calculate capital requirements. As I understand it, Basel III was designed for large banks operating on the international stage, and not for small banks serving agriculture on the Midwest plains.

We are a rural bank in eastern North Dakota, with $160 million in total assets, serving the needs of several small communities in 6 locations. We purchased the bank in 1987 from First Bank System (now US Bank), and we have not had any significant negative lending or other operational issues in our 25 year history under local ownership. Our Tier 1 Common Equity capital is at 8%, and our total risk based capital is approximately at 11%.

Basel III impacts us in a number of ways. First of all, it appears that we are going to need a Capital Conservation Buffer as part of our capital. The regulations associated with the Buffer effectively creates an ongoing "regulatory order", thus interfering with management and board decisions regarding dividends for payment of taxes as a sub S corporation, discretionary bonuses for executives, up streaming income of income to the parent holding company for debt reduction, and occasional stock redemptions as a closely held locally owned bank. A bank like us that has always maintained high CAMELS ratings and excellent relationships with the regulators does not need or deserve this type of management oversight.

Secondly, the 1-4 Family Risk Weights penalizes us for making 5 year balloon mortgages by requiring greater capital for a product that helps customers purchase lower cost homes in small communities where the secondary market becomes a more costly alternative. The weighting also encourages long term financing which is contrary to bank asset/liability management.

Third, increasing capital requirements for unused lines of credit becomes much more significant for our bank, because we use farm operating lines of credit that have large undrawn balances for a significant portion of the calendar year. Our competition, the Farm Credit System, does not have to deal with Basel III and therefore can more easily accommodate lines of credit for farmers, and we have enough of a challenge competing with them because of their tax exempt quasi-government agency structure.

Fourth, it seems unreasonable that smaller banks would have to deal with capital swings because of appreciation/depreciation of the investment portfolio. We do not buy our securities for trading purposes, but rather for liquidity and diversification, and the vast majority of securities in our portfolio are on the books until maturity or call date.

It is my hope that you and the decision makers would pursue a more simplistic approach to managing capital requirements based on individual bank condition. I recently heard one of the FDIC Directors speak at a conference, commenting that he favored a more straightforward approach by eliminating risk based capital, and requiring a larger common equity tier 1 capital ratio without all of the complexities of Basel III. That would make more sense to me. In the absence of that more straightforward approach, I would hope that smaller less complex community banks could be exempt from Basel III.

Your consideration of an exemption would be greatly appreciated.

Sincerely,

Gary W. Paulson
CEO

gwp

cc: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System
Washington, DC
Office of the Comptroller of the Currency
Washington, DC