FIRST NATIONAL BANK
OF STEELEVILLE
Steeleville / Sparta / Percy

October 18, 2012

Ms. Jennifer J. Johnson, Secretary
Board of Governors to the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Thomas J. Curry, Comptroller
Office of the Comptroller of Currency
250 East Street, SW
Mailstop 2-3
Washington, DC 20219

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

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve, the OCC and the FDIC.

I am writing on behalf of my community bank, the First National Bank of Steeleville. We are a $206 million community bank with three locations. We are very active in all three communities in which our banks are located and hope to be for a long time to come. As a community bank, we provide financial assistance as well as human capital for the leadership positions in our communities.

The last few years have been difficult for community banks between the economic problems and compliance and regulatory issues.

Basel III was originally proposed for the large national and international banks, banks over $10 billion. These banks typically have more compliance employees than I have total employees. They typically deal in complex financial transactions. I make real estate loans and car loans, to our local citizens, ag loans to our local farmers and small business loans to our local business owners. Pretty basic banking.

I have many issues with the proposed Basel III capital requirements and will try to effectively explain them.

The most shocking part of Basel III is that requirements are "one size fits all". If all regulatory concerns followed this mantra, all but the largest banks would fail. A $200 million community bank should not be treated the same as a $50 billion international bank, obviously the risks are completely different. While the Basel III capital requirements may be appropriate for very large domestic and foreign banks, it is certainly not appropriate for community banks. Community banks had little to nothing to do with the recent economic debacle largely created by sub-prime and Alt-A residential loans.

Capital:
Increasing capital requirements will have a very negative effect on my bank and community. For my bank, it is difficult to raise capital and with Basel III it will be harder. Increased capital requirements will decrease investor's returns causing investors to be less likely to invest. We are also a Sub Chapter S Corporation which will also cause investors to, at a minimum discount their financial interest and they may not be willing to invest at all.

The requirements of recognizing unrealized gains and losses on available for sale securities will have a substantial impact on our bank's capital account. Market fluctuations will cause great volatility of the bank's capital. If the bank has the ability to hold these assets until maturity it should not have to mark the gains and losses which would create large swings in capital over normal business cycle changes in interest rates. This will force my bank to either stay very short in the duration of investments or mark the investments as held to maturity. Either option limits the bank's ability to manage the investment portfolio for liquidity, earnings, and interest rate risk.

Lending:
We are primarily involved in real estate lending with a large portion being balloon loans on residential real estate. As I understand the proposed guidelines would increase the risk weighting for a residential real estate loan with a balloon feature from 50% to 100%. Mortgage loans that we keep at our bank are balloon loans that serve as a tool to enable us to manage interest rate risk. As a community bank we cannot book and maintain fifteen and thirty-year fixed rate loans due to the interest rate risks. Requiring higher risk rating on the balloon loans will require more capital which will increase the cost of the credit and eventually reduce the availability of credit in our markets. In fact some of the loans that we make in-house are loans that do not fit the mold of the secondary market. These loans may have larger tracts of acreage, lane roads as opposed to city streets with curbs. Living in a rural area we find these examples to be typical. The arbitrary doubling of the risk weighting will certainly have a negative effect on my bank, but more importantly on our customers.

Increased risk weighting on delinquent loans is a redundant means of raising capital and may cause some unintended consequences. As a regulated bank we are required to maintain an allowance for loan loss account that is adequate to cover the risks of our loan portfolio. We communicate quarterly with our regulators and have formal exams every eighteen months. Believe me, if our regulators feel that our ALLL is not adequate it will be addressed. If the risk weighting is increased on delinquent borrowers you may be encouraging banks to move through the collection process faster which could result in more foreclosures.

Reporting:
The scope of the proposed rule will require collection and reporting of new information in order to calculate the risk weights of the assets for our institution. At best, this will require more costs to the bank in way of time needed to calculate the risks, software or new systems to manage the risks or perhaps the cost to outsource the project to a third party. Either way, the proposed rules will cause our bank to incur new costs and increased regulatory burden.

I hope that all of you have thoroughly analyzed the impact that Basel III will have on not just community bank, but all banks prior to its implementation. I think it is important to point out that community banks did not cause the banking crises, but we continue to be hammered by ever increasing compliance and regulatory requirements.

Basel III is a proposal that was not written for community banks, will have a detrimental effect on community banks, which will cause a detrimental effect on the end consumer. I wonder how a proposal that was written to level the playing field for large national and international banks has found its way to a small community bank in Southern Illinois.

In closing, please give Basel III the attention it deserves and fully analyze the effect on banks of all sizes. We would all be much better served if we would slow down this process, make sure the results are what is intended. If the purpose of Basel III is to strengthen the banking system, I would be curious to know how it will strengthen the community bank's it will be applied to. Have you determined this? Since to date, I have not heard of any macro-economic study on the effects of Basel III on the different size institutions in the United States, I will assume it has not been completed. It seems to me that with a major change for our industry that more study is warranted.

If I can be of any assistance, please feel free to contact me.

Respectfully,

Thomas A Broeckling

Thomas A. Broeckling
Executive Vice President

Cc: Senator Dick Durbin
Representative John Shimkus
Senator Mark Kirk