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October 16, 2012

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

Dear Mr. Feldman:

I am writing today to express my dire concerns regarding the proposed rulemaking on minimum regulatory capital and the standardized approach for risk-weighted assets as proposed by Basel III.

I am a third generation community banker from a small rural community in Southwestern Minnesota. My family has been involved in banking for over 94 years. We have managed the bank conservatively and stuck to good, old fashioned banking. Our bank did not engage in highly leveraged activities. We take care of our customers and our community. It is most frustrating to see the proposed rules in Basel III treat all banks as if we are the same, operating under the same business model. My community bank does not carry the risk that the large money center banks carry. Most community banks are not internationally active or dealing in the complex derivative markets, yet we would be subjected to the new proposed rules. This makes no sense!

Incorporating AOCI as Part of Regulatory Capital
In regard to the inclusion of gains and losses on investment securities held available for sale, again I find this proposed rule to be unfair. It will cause increased volatility in capital balances and would deplete capital levels under certain economic conditions. Our bond portfolio is comprised of low risk issues managed for interest rate and liquidity purposes. When rates do rise, bond values will decrease and the unrealized losses would reduce our capital balances in our period where the capital markets will likely be tight for community banks such as ours. Large money center banks have the ability to mitigate the risk by entering into interest rate derivatives like interest rate swaps, options and future contracts. Small community banks do not have the knowledge or expertise to engage in these transactions. Community banks should continue to be excluded from incorporating AOCI measures as they are today.

New Risk Weights
The proposed risk weight framework under Basel III is very complicated and would be harmful to community banks. My bank generates residential real estate loans and we keep almost all of these in our loan portfolio. As a result we have a vested interest to strict conservative underwriting. This has served us well and we have seen minimal losses. In order to manage interest rate risk we write balloon loans. Assigning higher risk weights for balloon loans will penalize community banks. It will force our bank to originate only 15 year and 30 year mortgages with durations that will force us to sell off these loans rather than assume greater interest rate risk. If these proposed new risk weights are enacted our bank would have to seriously consider exiting the residential real estate markets. Again the one size fits all rules would end up hurting small community banks and consumers. Community banks should be allowed to stay with the current Basel I risk weighted framework for residential loans. The new risk weights being proposed would also be very expensive in a time when margins are already thin.

Community banks would be best served if they remained on Basel I standards. Basel I more accurately fits the community banking model and the type of assets they hold. I urge you to reconsider the one size fits all approach of Basel III. The existing community bank model has served our county and our communities well over the years. I urge you to exempt community banks from the proposed Basel III rules.

Sincerely,

Paul D. Pieschel
President