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October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors 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, S.W.
Mail Stop 2-3
Washington, D.C. 20219

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

I am the President of a $100 million bank located in West Central Minnesota. We are a traditional community bank that deeply cares and works closely with our customers. Our 44 employees are committed to helping our communities grow. I am very concerned about the effects of Basel III will have on our ability to continue to support the economic development in our area.

My first area of concern is requiring all banks to mark to market our available for sale securities. Our bond portfolio totals $35 million and is made up of government backed securities and Minnesota municipal bonds. They have little if any risk of loss, but are subject to interest rate risk which is managed very closely. At historically low rates, our market value adjustment is $643,000. Shock testing our portfolio 400 bp increase in interest rates would create approximately $3 million change in market value adjustment and drastically decrease our capital. Our tier one capital level would fall from 8% to below 6.25%. This adjustment to capital is made even though nothing has changed other than the interest rate environment.

An additional concern related to that decline is capital is the effect to our legal lending limit. In small banks we have many clients who borrow close to our current legal lending limit under the scenario above the reduced capital would trigger a lowering of our lending limit. This would leave us vulnerable to losing customers; reduce our income and our ability to replenish capital through retained earnings.

My next concern addresses the change in capital requirements on mortgage servicing assets. At the present time we service $20 million in residential real estate loans that we sell to FNMA. This is a mutual benefit to both bank and client. BASEL III proposal could eliminate this revenue source for our bank.

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Next is the increase in risk weighting on delinquent loans. I am a product of the 80's agriculture crisis and the recent world financial crisis. During both times agriculture and commercial loans had situations whereby loans were held past due for some time. The proposal of increasing the risk weighting on past due loans has a double effect by decreasing capital while at the same time we are holding large amounts in our loan loss reserve.

My last concern is the complexity of Basel III. Most small banks don't have the staff or computer systems to generate the granularity needed to report under Basel III. This means added expense.

Our ability as a bank to help our economy and communities grow is dependent upon the capital of the bank. I am proud of the fact that our bank participates with this commitment. If we are restricted do to capital constraints, our community suffers.

My hope is you start over on the accounting requirements for banks. Basel III can have the long term effect of putting the stake in the heart of community banking system.

Sincerely,

Clark Vollan

Clark Vollan
President