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Blackhawk Bank & Trust
Milan - Main Bank

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September 5, 2012

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Basel III Comments
RIN 3064-AD95 & RIN 3064-AD96

Dear Mr. Feldman:

I urge you and your committee to consider seriously an exemption for Community Banks under $5 Billion from the requirements of Basel III. In this letter, I will detail several reasons why I believe Community Banks such as Blackhawk Bank warrant exclusion.

No. 1 – Blackhawk Bank & Trust holds all of its loans. We do not sell loans to FNMA or to GNMA or to FHLMC or to any other mortgage bank. We underwrite our own loans to be held by us. We make loans to persons that we have known for years (sometimes for several generations of families). Sometimes we make these loans for little or no down payment. Under Basel III, we will have to carry higher capital.

We make business loans to local businesses and we hold these loans. Sometimes these loans have high loan to value ratios. Under Basel III, these loans will require higher capital. (I equate greater risk weighting to eventually requiring higher capital).

Because we hold all of our loans, we are careful in our underwriting. Please understand that banks such as ours are the lifeblood of our communities. We make many loans based upon character. Sometimes collateral is short, but if the character is strong (based upon years of experience with local families), projects get started and completed.

Higher risk weightings on loans with high loan to value ratings will cause us to not make such loans based upon character. This will not be good for the local economy.

No. 2 – We make a lot of "balloon loans." Under the Basel III proposals, these are "more risky" and will require higher risk weighting. Because we hold all of our own loans, and because we have been instructed by your agency (Federal Deposit Insurance Corporation) to lessen our interest rate risk by ballooning our loans after five years), we do have a balloon feature on our loans. I don't disagree that, by agreeing to a balloon feature, the customer has more risk. However, you need to be consistent. The balloon feature lessens our risk and the purpose of Basel III is to lessen our risk by increasing our capital. So let's be consistent. Do you want us to lessen our risk by having a balloon feature or do you want us to increase our risk by having a balloon feature? I think you understand my point.

No. 3 – We have a loan loss reserve. It has always been adequate to address our loan losses. When we have higher loan losses, we replenish the reserve. In those years where our loan losses are smaller, we make smaller additions to our reserves. In the last four years (including 2012), our loan losses have been higher. We have been able to replenish our reserve and add to it. At our last bank examination, the FDIC Examiners asked us to change our formula by using a three year (2009, 2010 and 2011) history rather than a five year history of loan losses. This is because our loan losses in 2007 were very small. Of course, we will do this. We fully know that, when this economic down cycle recovers and our nation returns to stability and our loan losses will be lower, FDIC Examiners will require going back to a five year history. This will be when the five year history returns will be higher than the three year history. This is just the game that is played. The point is this....Community Banks maintain a loan loss reserve to cover their risks. Basel III is primarily intended for risks not associated with the types of activities that Community Banks engage in.

No. 4 – Basel III will add unnecessary compliance burdens. Calculating the ratios for loan to value and for "balloon loans" will require many man hours for a compliance issue that is not an issue. Please don't tell me that "the computer will do all the calculations." That is simply not true for a Community Bank such as ours. The burden will be high....and the benefit will be very low.

No.5 – Blackhawk Bank & Trust is not the problem that Basel III is trying to solve. In the 2008 financial crisis, Blackhawk Bank was hurt. We owned securities that defaulted. We had losses on Trust Preferred Securities in 2009. We were hurt in the financial crisis as were our Main Street customers. But guess what.....we never made a "sub-prime loan." We made loans that went bad....but we never made a "sub-prime loan" at the time it was made. Community Banks did not cause the problem....we were just hurt by the problem. Now, some want to solve the problem by extending the solution to those who didn't cause it and were, in fact, hurt by it. Exempt those banks under $5 Billion that didn't cause the problem that Basel III is trying to fix.

No. 6 – Inclusion of unrealized gains and losses in the capital ratios (Comprehensive Income) is unnecessary. Everyone knows that interest rates are at historic lows. Everyone knows that, someday, interest rates will rise to normal levels. This will cause market losses on most securities for most banks (Money Center Banks as well as Community Banks). And yet, if you allow the bonds to go to maturity, there will be no losses at all on most securities. I suggest that, if you must include Comprehensive Income in the ratio calculations, that you exclude U.S. Government Securities (Governments, Agencies and Mortgage Backed Securities of U.S.

Agencies) and General Obligation Municipals from the calculations. Municipal Revenue Bonds, Corporate Bonds and Trust Preferred Securities could be retained in your ratio calculations.

For these reasons, I respectfully request that you exempt all Community Banks less than $5 Billion in assets from Basel III reporting requirements.

Very truly yours,

W. Gerard Huiskamp
President