From: Jann Simmons [mailto:Jann.Simmons@homestatebank.com]
Sent: Thursday, October 18, 2012 12:05 PM
To: Comments
Subject: RIN 3064-AD95

October 16, 2012

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
Regs.comments@occ.tres.gov
Docket ID OCC-2012 0008

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
Regs.comments@federalreserve.gov
Docket R-1442

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@FDIC.gov
RIN 3064-AD95

Re: Regulatory Capital, Implementation of Base III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Dear Heads of the Agencies:

We appreciate the opportunity to comment, and hope that the views of small banks are heard.

First, we would like to point out that regardless of the capital standards used to measure capital there has always been a double standard. The Too Big to Fail has always been allowed to run with less capital, in particular tier one leverage than small community banks. So if Basel III was intended to fix that problem we would be delighted, but we are somewhat skeptical that this is really the motives behind the new proposal.

Second, we would like to point out that the Basel rules were written for large international banks. Applying them to small community banks makes no sense to us and there is no question that they will have very negative consequences and be harmful to community banking, which has been the back bone of small business for the past 200 years of our nation's history.

Here are the major points that we believe Basel III will do that we would like you to consider:

1) Increased capital forces a decrease in lending, hurting small business, our primary market
2) Unintended consequence of forcing small banks to take on more risk, to increase earnings to achieve a ROE sufficient to be able to raise capital if needed
3) Negatively impacts our ability to work with struggling businesses
4) Overly complex, causing wasted overhead time with little resulting benefit
5) Forcing banks into increasing liquidity risk due to the AFS inclusion in capital.
6) Adding volatility to our capital ratios that has no correlation to economic reality

We believe that points 1, 2,and 3 are obvious and do not need further comment, but would like to address portions of points 4, 5, and 6.

Overly complex: It took many months for the regulators to come out with a model that could estimate the impact of the new for us. This fact alone points to the entire variable within the proposed new law. Inputs to the model are impossible for us to know as we do not have a data base of our original or current LTV's of our real estate loans. Further, there is confusion as to exactly which loans they apply to, and is it at origination, or throughout the life? If at origination, what does that have anything to do with a seasoned loan that may have a very low LTV but still be in the 150% category? Why would an unsecured loan be at 100% when a secured loan could be at 150% or 200%? Most importantly these arbitrary categories have NO correlation with our loss history.

Increasing Liquidity risk and volatility: The proposed rule will force us to move our AFS securities to HTM to avoid the mark to market of AFS. Our current balance sheet is comprised of 40% high quality, liquid securities with an average life of 3 yrs. We use them to supplement our earnings, manage our interest rate risk and provide a liquidity that few banks have. Due to the inclusion of unrealized gains and losses flowing through to CET1, we will have no choice to move them to HTM to avoid the potential volatility to our capital, thus decreasing our liquidity. This will also negatively impact our ability to manage interest rate risk as well as properly manage our portfolio. The ironic thing is that the more safe a bank is, via having few loans, the more volatile its capital will be. Home State Bank is a Sub Chapter S Corp, which multiplies the volatility of this issue by 50%. We are currently an asset sensitive bank, measured both by accounting income and by economic value, which means that we will make more money and have a better NIM should rates rise. Under this proposal, we will experience a decrease in total risked base capital from 15% to 10% under an 300 basis points increase in rates. This makes zero sense as it is not tied to the real facts that our real economic earnings and capital are stronger, but do to only marking to market one piece of our balance sheet an accounting entry changes our capital.

We would implore you to refuse to implement the Basel III for the reasons above as well as many others.

Regards,

Jack Devereaux, Jr., Chairman of the Board
Harry Devereaux, President
Mark Bower, EVP, CFO
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