October 17, 2012

Federal Reserve System
Subject Line: Docket No. R-1442; RIN No. 7100 AD 87 Regulatory Capital Rules
E-mail: regs.comments@federalreserve.gov; or FAX 202-452-3819 or 202-452-3102

Federal Deposit Insurance Corporation
Subject Line: FDIC RIN 3064-AD 96 Regulatory Capital Rules
E-mail: comments@FDIC.gov

Dear Sir or Madam:

The State Bank of Kansas (SBK) appreciates the opportunity to submit comments to the Federal banking regulatory agencies regarding the proposal addressing Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements. SBK is a bank with $65,000,000.00 in assets.

First, SBK would like to thank you for extending the comment period on this proposal, allowing me adequate time to fully evaluate the impact that this proposed changes in capital requirements will have on us.

Of concern to SBK, is that the proposal was not written by those who I know to be experts on the United States banking industry. There was no input requested from those I know to be experts on the United States banking industry. There was no oversight of the content in any way, shape or form, by those who I know to be experts on the United States banking industry. SBK does not disagree that re-establishing capital levels, so that I understand what is expected of us, is a great concept. However, I believe that those who know the industry best should be writing the rules, or at least, having input or oversight into the content of the rules. To this point, I would not oppose those who believe this proposal should be discarded, so that the banking regulatory agencies can draft meaningful regulations that are more representative of and responsive to the industry.

I believe that the banking regulatory agencies understand that a one-sized-fits-all approach to capital standards does not represent the U.S. banking industry as it is today. I believe that SBK is representative of the fact that there are many commercial bank shapes and sizes that exist across this country, and each and every model serves a purpose-each particular model is responsive to the needs of the "community" it serves. I believe strongly in preserving the industry's right to remain innovative and choose to serve the very smallest of communities as needed. There are some bank models that are less complicated than others, and deserve less complicated capital requirements. There are others whose levels of sophistication is such that more layers are needed to assure the model stays strong and secure. I urge the banking regulatory agencies to consider the need to start over on this proposal to restructure the capital needs of the various banks across the country.

The Basel III proposal adds a new Common Equity Tier 1 Risk-Based Capital Ratio, which would require a bank to have a Ratio of at least 6.5% to be considered a "well-capitalized" bank.

- Such an adjustment could have a significant adverse impact upon my SBK.

- Unrealized gains/losses on investment portfolios can have a significant fluctuation, which could result in wild upward and downward swings in this capital ratio component. SBK does not actively sell/trade investments. This could have a negative impact on Tier 1 capital for SBK.

- This additional capital ratio is NOT meaningful to SBK, and should be excluded for community banks.

- The limitations on mortgage servicing rights are very damaging.

- As deferred tax assets are utilized on the date interest rates increase, and fair market value of AFS securities turn to unrecognized losses, this will adversely affect SBK.

- The risk rate of securities is of great concern.

- The additional time required to figure LTV on real estate loans for SBK is not cost effective.

- This is a mega bank problem and not a community bank problem.

The proposal requires banks to maintain a "Capital Conservation Buffer" in order to have no restrictions on the payment of dividends, share buybacks, etc.

- This could have a significant impact on SBK if sold .

- It will limit SKB's ability to loan additional money.

- In practice, the regulators can already do this with **SBK**. If regulators are not comfortable with the SBK's capital, they can issue an "individual minimum capital requirement" order which prohibits the bank from paying dividends, etc., if it goes below that requirement.

- I would rather have the regulators just tell me if they want more capital—and then give me time to get there.

- Current plans for growth would be stalled with this new requirement.
- If SBK grows deposits, this could affect the bank's ability to achieve the buffer.
- If the investment portfolio is marked-to-market, or the risk-based capital requirements assigned to other assets changes, the SBK may not maintain the buffer.
- The cost of having an accountant maintain these calculations over time would probably exceed any dividends/bonuses to be paid.

Under the Standardized Approach, balloon notes on 1-4 Family Residential Mortgage loans will have a risk weighting ranging from 100% to 200%, depending upon the loan-to-value (excluding PMI coverage.) Our bank uses closed-end balloon notes rather than fully amortizing Adjustable Rate Mortgage loans to finance 1-4 family residential mortgages.

- The new risk weighting needs to be revisited—SBK uses balloon notes to help manage interest rate risk.
- Balloon notes are used to allow a borrower who might have had poor credit, to season the loan with SBK for 24 months. If after that time, there were no past due's, SBK could move the borrower into a longer term note.
- Balloon notes are a very useful tool to coordinate SBK's cost of funds as an interest rate risk tool, and also helps with asset quality control.

  SBK may be forced to stop offering balloon notes to consumers for 1-4 family residential mortgage loans.
- SBK may continue to make balloon notes until capital burden becomes too onerous, or the CFPB no longer allows balloon notes.
- This new risk weighting will reduce the number of loans made in this area, and consequently, will adversely impact consumers.
- The risk weighting of such loans will change SBK's entire real estate portfolio.

Under the proposed Standardized Approach, "High Volatility Commercial Real Estate (HVCRE)" loans will have a risk weight of 150%. This requirement that the borrower must contribute 15% of the "as completed" value prior to the bank advancing funds in order to avoid the HVCRE risk weighting adversely affects the borrower's ability to borrow and SBK's ability to lend for the purposes of real estate acquisition, development or construction financing loans.

- This proposal will prohibit some lending and will discourage some borrowers before they even begin to work on a plan.

- Putting a finite figure on commercial real estate loans is not reasonable, as so much depends on the borrower's strengths and weaknesses-whether they are a high net worth borrower, whether there is other collateral offered, whether the property appraises for more than the loan amount.

The risk weighting on past due loans (90 days or more past due) or non-accrual loans, other than 1-4 family residential loans and HVCRE loans, will increase to 150%.

- This will be harder on borrowers. It will be very expensive for SBK to be "patient."

- Capital is already being allocated to these loans in the appropriate amount.

- There is already an appropriate amount in the loan loss reserve for these types of loans, so requiring risk rating at 150 basis points will take capital away from other potential loans.

- If these loans are well-secured and in the process of collection, there should not be a requirement to reserve more capital. This will greatly complicate the Call Report.

- Most loans on non-accrual are on SBK's watch list with adequate reserves set aside. This is a double hit for the same loan—and will lower capital.

- All past due loans are not a like so the rule should not over generalize with the same "risk rating."

- SBK may not make some loans if we take the risk of needing to pump more into capital. This could result in higher fees to the consumer.

Under the Standardized Approach proposal, credit-enhancing representations and warranties on 1-4 family residential mortgage loans sold to the secondary market will have to be risk-weighted as off-balance sheet items. Currently, these features do not get counted as off balance sheet assets in the banks ratios if the bank's liability is 120 days or less. The loss of the 120 day exclusion period for credit-enhancing representations and warranties will negatively affect the bank's willingness to make fixed-rate 1-4 family residential mortgage loans.

- This proposal will reduce by 50%, the amount of 1-4 family loans.

- This proposal may cause SBK to just resort to using government guarantees like FSA and SBA loans only, and exit the residential real estate loan market. A one rule fit all banks does not work.

- This proposal will require the secondary market to provide adequate reports for SBK to evaluate.

- The FHLB MPF program already requires the bank to include the Credit Enhancement for those loans in our off-balance sheet commitments for Risk-based Capital at this time.

Conclusion:

SBK realizes the importance of maintaining a level of capital that is sufficient to ensure that customers and shareholders are assured of the safety and soundness of the bank. If this proposal is intended to increase capital levels for all banks, we believe it could be achieved in a much simpler manner, but this proposal appears to go further and to dictate the make-up of the loan and investment portfolios of banks using a cookie-cutter approach. We believe these decisions are best made on an individual bank basis based on the needs of the SBK's respective community.

We urge the re-consideration of a standard that is less complex, that is responsive to the various needs of communities both large and small, and that does not cause some institutions to exit certain markets in the communities which still have the need for such loans.

Thank you, once again, for the opportunity to comment on this proposed rule.

Sincerely,

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Chairman/President
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