L.A. Amundson

September 5, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

RE: Proposed Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (R-1442, Docket ID OCC-2012-0008, RIN 1557-AD46, RIN 3064-AD95)

Proposed Regulatory Capital Rules: Standardization Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements (R-1442, Docket ID OCC-2012-0009, RIN 1557-AD46, RIN 3064-AD96)

Dear Mr. Feldman,

I have had the opportunity to read through the notices of proposed rulemaking (NPRs) listed above. I understand these proposals are designed to incorporate the latest revision to the Basel III capital framework and to implement relevant provisions of the Dodd Frank Wall Street Reform and Recovery Act. While I understand the agencies are attempting to strengthen the banking system following a severe economic downturn, it is nearly impossible to make sweeping changes across the banking sector that accurately reflects the risk at each institution. We being a smaller, closely held banking organization should not be subject to the same capital rules as a multibillion dollar bank with any number of shareholders.

There are five rules I will touch on, including: Accumulated Other Comprehensive income as a component of Tier 1 capital; Minimum Capital Ratios, Capital Conservation Buffer; and Prompt Corrective Action Requirements; Residential Mortgage Exposures; and Securitization Exposures.

Unrealized gains and losses on AFS securities flowing through to common equity would give us a very distorted view of what our actual capital levels are. Nearly all of the investments our organization purchases are designed to be held until maturity. We, like most community banks, are not heavy trading organizations. We like to have the flexibility of selling a security here or there if it makes fiscal sense. Looking at the tier one capital through these proposed rules could lead to flawed, uneconomic, and even unsound decisions regarding an institution's asset-liability management and investment options. Using this method, rate movements would have a great impact on tier one capital and would not reflect actual capital levels. We would be forced to hold greater levels of capital, just to protect ourselves from a rate rise. This ruling may also

force us to purchase shorter term investments to reduce volatility. While this would give us greater liquidity, it would reduce the ability of the investment portfolio to produce income and generate capital appreciation.

The second item is the introduction of a new common equity Tier 1 capital ratio and a modified capital component ratio calculation. Without a "Capital Conservation Buffer" there will also be limits on capital distribution and discretionary bonus payments. Minimum capital requirements and the addition of a new common equity Tier 1 capital ratio in themselves are not alarming. The question I have is why the capital conservation buffer that would be in excess of the minimum capital ratios? In this scenario, a banking charter could be considered well capitalized, but still be restricted on their dividend and bonus payments. This would create a confusing and contradictory set of standards. The risk weighting of assets already reflects perceived balance sheet risk and affects the risk weighted capital ratio based on these risk weightings. Also, an examiner already has the ability to restrict capital distributions when necessary based on the financial condition of the bank.

The residential mortgage exposure provision is quite alarming for smaller banks. This would cause us to be forced to look at each one of our mortgages, loan by loan. We have not changed our lending standards through the housing boom and bust. It does not make sense for community banks to go through this process when all of our mortgage loans are prudently underwritten.

The final item I'll touch on is the securitization exposure. We will no longer be able to assign risk weights based on the credit ratings assigned by the nation credit rating agencies. We would be forced to calculate the risk weighting based on a supervisory formula or a gross-up approach. This would cause a great increase in labor hours when completing the call report. Also, these calculations do not give the holder any credit for structural features including purchase price or carrying value of a security. We own a number of these instruments, but at deep discounts. We also test them for other than temporary impairment regularly. We are analyzing these investments very diligently and have them written down properly. It does not make any sense for us to assign inflated risk weightings to these investments.

I understand the effort to improve the quality and quantity of regulatory capital, but the provisions laid out are of great concern to our banking organization. We have small, community banks that have been pillars of the community for years. We haven't engaged in risky lending practices or changed our underwriting much at all over the years. Our main goals are to provide financial services to our communities while earning a profit for the shareholders. We have a small number of shareholders who watch their investment very closely. Adding layers of new regulations and workload is not going to make our banks any stronger, it is only going to decrease efficiency.

Thank you very much for the opportunity to comment on this proposal. If you have any questions or would like to discuss this further, feel free to call me at 605-335-1508.

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Sincerely,

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