Stock Yards Bank & Trust
SINCE 1904

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

Re: Basel III

Dear Sir or Madam:

As a 27 year veteran banker, current Chairman of the Kentucky Bankers Association, and a Board Member of the Louisville Branch of Federal Reserve Bank of St. Louis, please accept my plea to reconsider your proposed adoption of the Basel III capital standards for community banks.

Most small banks do not have ready access to capital markets and therefore have very limited sources to replace trust preferred securities as a source of capital. Pooled TRUPS may have contributed to many small banks' demise or caused problems for surviving banks by allowing growth at an irresponsible pace. However, to take that capital away, albeit over several years, could prove disastrous. Bankers will be pushed immediately by regulators to formulate a plan to replace the capital or shrink their respective balance sheets as most small banks will find themselves undercapitalized.

As the attached Federal Reserve document details, European and domestic banks are far different when bank assets are compared to the bank's respective country's GDP. As the exhibit shows, these European banks are very systemic to their country's GDP. Contrast that to the U.S. Banks with Citi Group being the largest at 14% of U.S. GDP. While the Basel III guidelines are very important to Europe, bringing that forward to the banks in the U.S., particularly banks under $10 billion, is not sensible.

You may think my position is self-serving to preserve our company's trust preferred securities to remain as Tier 1 capital. The opposite is true in that a change in law disqualifying the securities as capital would allow us to redeem our issuance early. Early redemption would leave us in a well-capitalized positions and save our shareholders a great deal of interest expense. We also have access to the capital markets should we need qualifying capital in the future. Our bank was approved for TARP but declined, and our parent company issued its own public debt securities at the height of the financial crisis in December 2008. We did not need the capital but did not want to turn down the government and not have another alternative should the economy have continued to worsen.

Until a meaningful economic recovery occurs and banks navigate through the hundreds of new regulations of Dodd Frank, do not saddle them with yet another troublesome regulation. No one regulation is overwhelmingly problematic, but rather a continued onslaught of new regulations and regulations still to be interpreted is devastating. As I listen to one Federal Reserve economist after another, the European crisis is far from over and if it worsens, could push the U.S. back into recession. The need for bank capital will be paramount.

There is no compelling reason to impose Basel III on small U.S. Banks. The U.S. economy is not robust and the risk of another recession is high. Guidelines designed for systemic foreign banks are not applicable to a $500 million U.S. bank. Please reconsider your position.

Thank you for your time and consideration.

Very truly yours,

David P. Heintzman
Chairman and
Chief Executive Officer

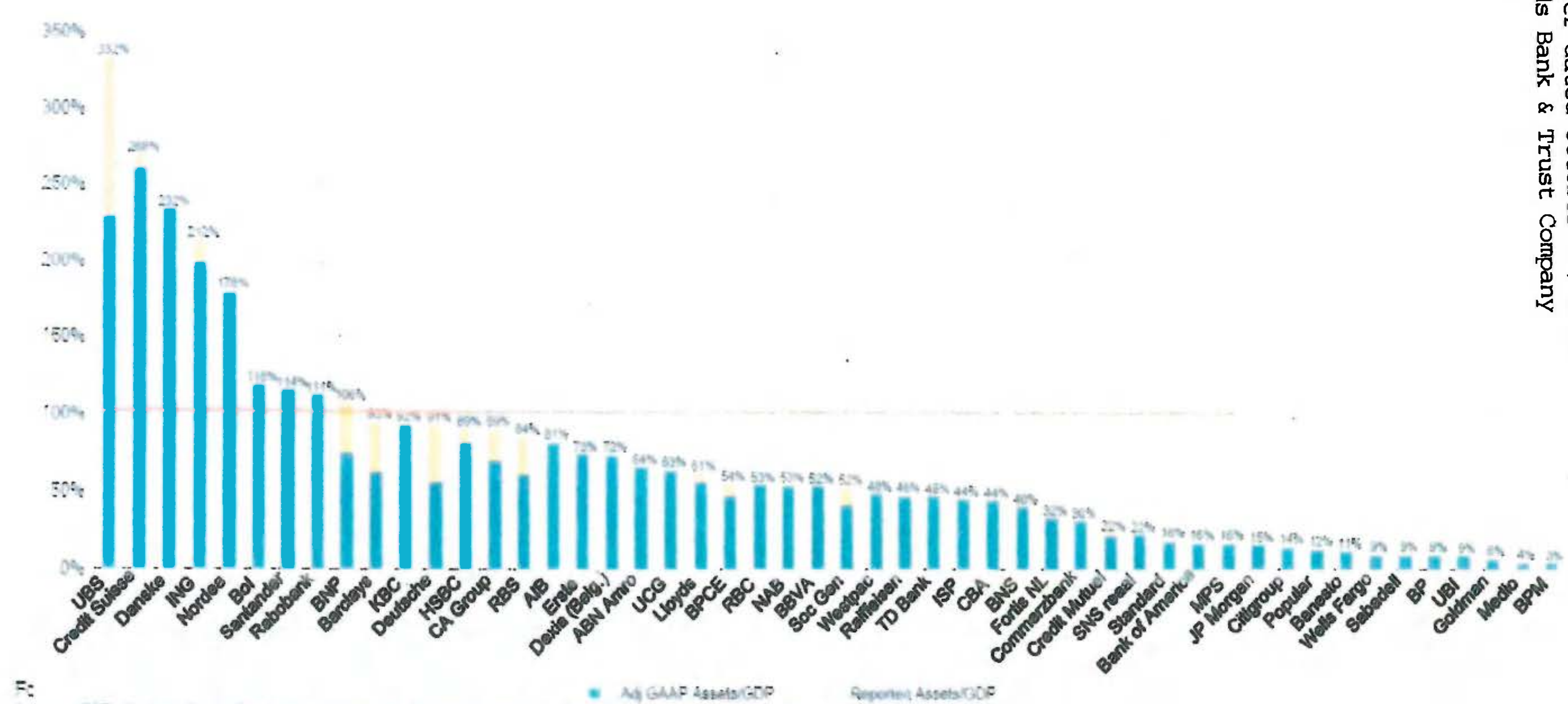
FEDERAL RESERVE BANK *of* ST. LOUIS

CENTRAL to AMERICA'S ECONOMY

Exhibit to letter dated October 19, 2012
from Stock Yards Bank & Trust Company

How Large Are the Banks?

Bank Assets-to-GDP Ratios



Source: IMF, Central Bank of Ireland and Morgan Stanley Research. All GDP figures are as at 2010.
Note Ireland is the total banking assets figure vs. GDP
Note Only Dexia Bank Belgium is incorporated. ING, BNP Fortis are assumed to be supported by the NL and French Governments respectively.