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October 22, 2012

Federal Reserve System
20th Street & Constitution Avenue NW
Washington, DC 20551

Re: Docket No. R-1442; RIN No. 7100 AD 87 Regulatory Capital Rules

Dear Sir or Madam,

Thank you for 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.

Items that will effect most community banks due to the new calculations proposed will be unrealized gains or losses on securities, the mortgage loan portfolio and loans pertaining to acquisition, development and construction. We hope that community banks ultimately will be excluded from these proposals for the following reasons:

1. We're already held to a higher capital standard than the large banks.
2. These new standards are proposed in an environment of marginal earnings for most community banks
3. Community banks also have more restrictive capital options and only limited access to public markets.
4. The proposed rules are counterproductive to community banks ability to create economic growth and jobs.
5. Regulators already can demand increased capital levels as they see fit. No need for additional confusing restrictions.
6. One size fits all doesn't work – there's a big difference between those who have the power to create systemic risk versus community banks.

Silver Lake Bank is a Kansas community bank with approximately $200 million in assets. Specifically, the issue that's most concerning is the requirement that unrealized gains and losses on available for sale securities must flow through to regulatory capital. Basel III includes the unrealized gain/loss on AFS securities in a newly defined capital definition called Common Equity Tier 1 Capital (CET 1). For the period of June 30, 2012, we had an unrealized gain of $1,093,000 which under the new definition adds to our CET 1. However, as rates rise and unrealized gain turns into an unrealized loss, it will be a deduction from CET1. Since eventually, rates have nowhere to go but up; this change will impact us negatively.

Additionally, as of the same date, 35% of our category 1 loans will be subject to higher risk weightings and 21% of category 2 loans will be subject to higher risk weightings. Also, 30% of our CRE portfolio will be subject to higher risk weightings.

Your proposal appears to dictate the make-up of the loan and investment portfolios of banks. I believe that decision is best left up to the individual community bank. I ask you to reconsider the requirements.

My thanks once again for this opportunity to respond.

Sincerely,

Patrick R Gideon
President

PRG:tap