Lincoln County Bancorp, Inc.

P.O. Box G
Troy, MO 63379
(636) 528-7001
Fax: (636) 528-1924

Independent Community Banks

October 3, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

RE: BASEL III Proposed Rule Making

Ladies and Gentlemen:

Let me firstly thank you for taking the time to read the numerous comments and suggestions related to the proposed BASEL III capital adequacy guidelines. As I am well aware that you have a great deal to contend with, I will attempt to state my concerns briefly and clearly.

The first concern that I have relating to the proposed standards is the potential detrimental effect to capital that would occur by including all accumulated other comprehensive income measurements. This could result in an unnecessary strain on an organization's capital structure by increasing market fluctuations not associated with core capital elements. The effects of this proposal are disconcerting at more than just the bank level as well. While an organization's capital position would then be more vulnerable to market fluctuations than the typical core capital elements, this could also be detrimentally affected by the Federal Open Market Committee's ability to maneuver interest rates due to the fact that any adjustment to those stated rates would immediately affect an organization's capital structure. This alone is harmful to the long term planning and viability of an organization, but it is similarly problematic to those entities that receive funding from banks, such as local, state, and even federal agencies simply because banks would be more cautious of the types of agencies they purchase securities from due to possible interest rate fluctuations.

The subject of fluctuations brings me to my second point of concern. Over the course of the last several years, we have seen record highs and record lows when it comes to determining value on anything, but no other area has been more affected by these fluctuations than real estate. By adding the requirement that risk weightings be based on loan to value measures, there is a level of speculation and volatility added to the risk weighted asset measurements and therefore capital measurements. The last few years alone have shown us how much loan to value measurements can fluctuate, yet in most cases it means little about the payment viability of the borrower. Also requiring risk weight categories of greater than 100% on certain assets will restrict lending and potentially penalize an organization that is already in a stressed position. In some instances, assets that would be subject to a risk weighting greater than 100% are already in an impaired position and subject to FAS 114 specific reserve calculations. This being the case, valuing the assets over 100% and requiring the specific reserve on the assets, results in a double counting of the impairment and a further reduction of the core capital elements. Implementation of the rules on existing portfolios will also prove burdensome and difficult to administer, potentially exacerbating the stress on an organization. The overall complexity and subjective nature of the loan to value risk weighting and the overall difficulty to administer would have an adverse effect on lending within communities and restrict the capital structure of an organization.

The third and final point that I have concerns with is the use of a capital conservation buffer as an additional defense against risk and volatility. While this buffer would be in addition to proposed adequately capitalized measures, it is still subject to agencies supervisory authority and can be adjusted as such. This adds a degree of uncertainty for forward planning resulting in potential restricted lending and further capital conservation. The conservation buffer also allows for agencies restrictions on normal bank functions that can be imposed at will if the necessary buffer is not met, thus adding uncertainty and complexity to an already complex measurement system.

Although there are several other proposed rule making guidelines outlined in the BASEL III documents, these are the ones that I felt portrayed the greatest risk to stability of the banking industry. There are a few points that I agree with in the BASEL III guidelines, namely the proposed phase out of Trust Preferred Securities, due to the fact that they do not represent core capital elements. This I think will strengthen the long term viability of a bank as long as they are phased out over an acceptable period of time, allowing earnings and capital investment to replace them. I am also not opposed to higher standard capital requirements for banks to mitigate losses and risk, as long as these too are allowed to phase in under a reasonable period of time and reduce potential volatility. However, the proposed standards that I have listed above appear more subjective in nature and less straight forward, which would add even more stress and volatility to capital structures.

I want to again thank you for the time spent reading all of these comments, and I hope that they make a difference in the future rule making as it relates to the banking industry. If you have any questions or would require further clarification, please feel free to contact me at 636-528-7001.

Sincerely,

Scott Hufty

Scott Hufty, CPA
Vice President
Lincoln County Bancorp, Inc.
Scott.hufty@pbtc.net