From: First State Bank, Clay Schnell

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Regarding the proposed change to include Other Comprehensive Income in Tier 1 Capital:

1)This makes the total more volatile and is affected by changes in interest rates. I don't think that makes sence to me.

2)As rates go down, as now, we are typically in more volatile economic times. Yet Tier 1 Capital would reflect higher levels. As rates go up and better economic conditions exist, more capital would show to be needed. Does that make sence?

3)We have a defined benefit pension plan and in very low rate environments it shows to be underfunded in Other Comprehensive Income (lowering Capital). However, that figure does not include the amount we have as Prepaid Pension in Assets. Also, this figure again goes up and down with interest rates.

4)To lower the volatility of Tier 1 Capital banks may respond by altering the duration of securities portfolios (shorter duration) and not only lower income levels overall; but, also alter their interest rate risk strategies in a manner which is not in the best interest of overall bank stability (safety and soundness)

5)Another bank response may be to hold more securities in the Held to Maturity category. This also may not be in the best interest of banks in certain economic conditions, affecting potential present and future profitability.

Regarding the proposed change to the risk weight change on 1-4 family property:

1)From an actual risk perspective, the actual change in risk seems to me based on whether the customer can pay the higher interest rate allowed on the debt. That is measured by looking at the debt service coverage at the maximum allowable rate rather than choosing a 6% change as the risk. If a borrower can't pay the debt with a 2% increase, there is the risk.

2)It looks to me a little like someone is trying to establish an interest rate term which will effect the way banks make loans. Usually, I have seen that things like that just result in more restricted lending and I thing that has happened more and more. Then congress blames the banks for restricting lending.

Regards

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