From: Dacotah Banks Inc., Richard L. Westra

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

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Federal Reserve Board:

I am writing today regarding the jointly issued notices of proposed rulemaking to increase minimum levels of required capital, narrowing the definition of qualifying capital and increasing the risk weighting for various asset classes when calculating the ratios. The proposal pattern the standards contained in the Basel Capital Accords (Basel III). It is my understanding that implementation of Basel III would apply to banks of all sizes that are currently subject to minimum capital requirements.

The concepts embodied in these proposals will have a significant adverse impact on my community bank here in Aberdeen, S.D. along with our 32 branches located throughout North and South Dakota. Additional capital diverts resources from customer services and growth. We will need to limit investments in longer duration assets with a negative impact on housing programs and changes to our available for sale portfolio may have to be made. These are some of my concerns.

1. 1-4 Residential Mortgage Loans - The method for determining how much capital a bank must hold against various types of mortgage loans is complex and not based on our historical performance.

2. Complex Capital Calculations - We will face a new administrative task of tracking 13 categories of deductions and adjustments to capital and changes to risk-weighted assets on at least a quarterly basis. This will increase my regulatory costs of operation.

3. Potential Volatility of Regulatory Capital- Including unrealized gains and losses on AFS securities will create potential for capital volatility and a significant reduction in regulatory capital in a rising rate environment.

4. Risk Weights on loans, especially residential mortgage loans, are likely to significantly increase. It apparently doesn't matter if it's a first or second lien position and this is especially true if it is a "balloon" loan which is very common in small communities that find it difficult to place loans into the secondary market due to lack of comparable sales activity and thus appraisals that are acceptable to the secondary market.

5. Loan-to-Value Ratios. How frequently will my bank be required to track the LTV on both residential and commercial real estate during the term of a loan? At the time the loan is made? No one seems to know. And if it's during the entire amortization period, how in the world do we do that? More expensive software??

The future of the community banking model largely depends upon the banks' ability to generate earnings which provide a fair rate of return on assets and the owners' equity. Capital will flow into industries where investors can realize a rate of return that compensates owners fairly for the level of associated risk, credit and compliance risk included. But the contrary is also true. Bank regulators play a key role in striking the right balance I believe that the new Basel II proposals upset that balance.

Thank you.

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