HORIZON BANK

September 7, 2012

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

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

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I am writing to request that you reconsider the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Horizon Bank N.A. (Horizon) is a $1.8 billion community bank located in Michigan City, Indiana. We are about to celebrate our 140th year in service to our local communities and the Basel III proposals will have a significant impact on the financial services we offer, as well as other community banks throughout the United States. Significant increases to the capital requirements will lead to a reduction in lending at a time when the goal should be to encourage more lending. I head up Horizon's residential mortgage area and I have concerns on the impact it will have on residential mortgage lending. Specifically, residential construction lending and high loan-to-value loans, defined as loans with a loan-to-value greater than 80%. Since January 2011 Horizon has originated construction and high loan-to-value loans totaling ~$192 million and we are just one of hundreds of community banks that will be affected by these changes. Based on the proposed risk weighting and corresponding capital requirements residential construction loans would either be discontinued by our bank or priced at a much higher interest rate to offset the cost of the additional capital requirement. The increased risk rating for loans based on loan-to-value ratios and the fact that the current proposal does not recognize credit enhancements, such as private mortgage insurance, will have a devastating impact on the average home buyer. Higher priced loans and consequently higher payments will adversely affect the borrowers' ability to obtain credit and service existing debt. These proposals will have immediate and real impact on borrowers and the troubled housing industry at a time when this industry needs all the help that it can get. In addition, the proposed changes increasing capital requirements for

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mortgage servicing rights (MSR) will adversely affect local borrowers since community banks will be discouraged from holding MSR's.

Capital standards should not be a one-size fits all approach, the capital rules need to be adjusted according to size, complexity and risk level of the individual bank. The lack of options for mortgage credit will cause borrowers to pay more than they should and will curb Horizon's ability to lend and provide liquidity to the local communities we serve.

A reasonable alternative to the proposed rules would be to only apply the increased risk weighting to impaired loans and continue to risk weight the performing portfolio as current practices provide and to eliminate the MSR capital deduction at the community bank level. I respectfully request that you reconsider the proposed rules and modify them to allow community banks, like Horizon, to continue to serve local customers and keep the economy and local housing markets moving forward.

Yours truly,

James D. Neff
Executive Vice President-Mortgage Banking