Central Bancshares, Inc.

Corporate Headquarters
301 Iowa Avenue • P.O. Box 146
Muscatine, IA 52761 • (563) 263-3131

Gregory J. Kistler
President and CEO

October 22, 2012

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

RE: Basel III FDIC RIN 3064-AD96, and RIN 3064-D97

Dear Ladies and Gentlemen:

Thank you for the opportunity to comment on the Basel III capital proposals. I am writing to you as the CEO of Central Bancshares, Inc., a four bank holding company headquartered in Muscatine, Iowa. Today we are approximately $725 million in assets, operating in seven communities in eastern Iowa and western Illinois. We are a traditional community bank serving consumers, small businesses and farmers, primarily in small cities and rural areas. We also offer trust services through our two larger subsidiaries, and we have a particular emphasis on mortgage lending, currently servicing over $200 million in residential real estate loans.

I am supportive of the concept that banks of all sizes should operate with a strong capital base. I respectfully suggest that the Basel III proposals are not the most effective way in which to accomplish that objective for community banks. I will focus my comments on two areas of the proposals, the risk weightings of residential mortgages, and the inclusion of unrealized gains and losses on securities in capital.

As stated previously, our banks emphasize mortgage lending as a primary means to serve our consumer customers, and to build long term relationships with them. Most of those mortgages are sold to the secondary market, mainly to avoid undue interest rate risk. Particularly in rural areas, a segment of those customers do not qualify under the stringent guidelines of the secondary market, so we make portfolio loans available to those customers. Again due to interest rate risk, those loans have adjustable rates or balloons. Put simply, the technical requirements of the mortgage business, including compliance requirements, are simply becoming too onerous for many community banks. The additional requirements of the proposal will only add to that burden. Tracking the different categories proposed for the risk weighting of mortgage loans will be work intensive and prone to human error, and that requirement by itself will reduce mortgage availability for many consumers.

Including unrealized gains and losses from the securities portfolio in capital will have a chilling effect on the community bank industry. We all realize that we are operating in an environment of historically low interest rates. Many of us have large unrealized gains in our portfolios. We know that an increase in rates can easily turn those unrealized gains into unrealized losses. I respectfully propose that a shift of that nature does not change the underlying risk profile of a community bank. I would also suggest that it will have the long term unintended consequence of reducing credit availability and other financial services in non-metro areas.

I believe that the current regulatory and interest rate environments will drive consolidation among small community banks, specifically those under $100 million in assets. Based on just the inquiries I have received, I am confident that trend has already started. However, the risk of reduced capital ratios simply due to an increase in interest rates will keep many potential acquirers, including ourselves, from considering these acquisition opportunities. These small banks will be left with few long term options, and the communities they operate in will suffer as a result.

Thank you for the opportunity to share my views on these issues.

Sincerely,

Gregory J. Kistler

Gregory J. Kistler
President & CEO