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October 16, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue NW
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 NW
Washington, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Regulatory Capital

The bank currently enjoys a positive market adjustment of $932,656. Should rates rise by 200 basis points, our market adjustment would be a negative $2,307,978. Our current capital before any market adjustment is $19,656,490. A 200 basis point increase produces a swing of $3,240,634 or 16.5% of capital. A 300 basis point increase would produce a swing of $4,994,367 or 25% of capital. The current leverage ratio as proposed is 13.3%. The leverage with a 200 and 300 basis point increase would be 11.2% and 10.1% respectively. This is too much volatility.

The mark to market movement is conceptually supported by determining a value if liquidated. Loans are not required to be marked to market because the premise is that loans will be held to maturity. Likewise our bond portfolio is intended to be held to maturity. A 200 basis point increase would not mean the bank would lose $3,240,634. Our reinvestments of securities would produce additional income. Asset margins would increase. The bank's capital needs to be viewed in light of the entire balance sheet as a going concern.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

New Risk Rates

Applying the proposed rules lowers our weighted risk assets - today. The amount of work that went into the effort was significant. The definitions of Category I and Category II are confusing. The implications that giving a home equity loan would redefine a first mortgage from Category I to II is not logical. Documenting a current valuation without a current appraisal could become prohibitive.

The current process of determining an appropriate ALLL reserve already includes these concepts. To maintain the current ALLL validations and implement Basel III is a duplication of required equity especially when considering nonaccrual loans as a separate risk item.

Currently our bank is the only provider of residential mortgages in our county. The residential real estate product is under attack. First, the disclosure changes including the potential liability to the bank challenge the ability to profitably offer such a beneficial product. Second, the consumer protection movement to discourage balloons and all fees are in conflict with safety and soundness and managing interest rate risk. Now the bank is challenged with the requirements of meeting Basel III reporting. The final straw will be the definition of a "qualified mortgage". Basel III is not by itself the reason to discontinue offering residential mortgages. Basel III requirements must be viewed in light of all other regulatory changes.

Finally for community banks to believe we would escape the effects of Basel III by an exemption would be naïve.

Sincerely yours,

Doyle Jelsing
President