



**KEARNEY
STATE BANK
& TRUST COMPANY**

Member F.D.I.C.

June 11, 2005

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

Re: Proposed Classification of Commercial Credit Exposures

Dear Ms. Johnson:

We are a small (\$145,000,000) bank in an extremely competitive market. We identified an asset niche that we felt represented an acceptable level of risk with an interest margin that was profitable. We know our customers and move quickly when we identify trends that will cause future problems. Though we are in an agricultural area, we have concentrated on small businesses. We are a collateral based bank, but put the majority of our loans on amortization with good collateral margins to protect ourselves in the event of defaults. 69.31% of our classified assets (in dollars) were small businesses. All of these were on amortization or in the process of going to amortization. Our policy is to charge off or go to collection any 90-day delinquencies. Recent examiners have classified several of these commercial lines even if they are around 60% real estate secured, amortizing and well established customers. This skews our ratios and requires attention that diverts us from attending to more significant problems. Over the past 13 years we have exceeded Peer ROAA, ROE and growth ratios.

We are very much in favor of your proposal. We have incorporated your proposal into our Problem/Watch list. This allows us to address significant developing problems. Our history should evidence our effectiveness in our methods.

Respectfully yours,

Don Kearney, President