HOME BANK
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October 11, 2012 *It's all about you*

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

Re: Basel III Capital Proposals

Dear Ms. Johnson:

Thank you for the opportunity to provide comment on 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.

Our Bank was started in 1904 in Eureka, Kansas located in Greenwood County. We are in the Flint Hills and only have 5.9 people per square mile. Greenwood County's population is currently at 6,614 and in 1960 it was 11,253. The projected Greenwood County population, per the Census Bureau, is to be 5,741 people in 2020, just eight years out. That will represent a 60% decline since 1960. When I came to work for the Bank in 1970, fresh out of college, the population was 9,141. The Bank's assets in 1970 were $10,000,000. Our Bank's assets are now around $85,000,000. Most of that growth is due to putting three branches into the Sedgwick County market, more specifically two branches in Wichita, Kansas.

I have served on the Kansas State Banking Commission for two terms, one under a Republican Governor and one under a Democratic Governor. I understand the need for a regulatory framework to assure our economic system thrives. I feel our bank examinations and supervision not only helps ensure the safety and soundness of the overall banking system, but has helped us to operate more successfully in serving our customers and communities. I also understand the importance of capital in any industry, especially in the banking industry. I have been in the banking business for 42 years at the same bank.

The proposed Basel III will require us to increase our capital by 30 basis points and thus reduce our lending by $1,600,000, which will take a minimum of two weeks to change our computer system to accommodate the new category requirements. We also know it will take many hours to keep all committees and our Board up to date, so ongoing administrative costs, at this time is not known, but it will be additional work and time, thus more ongoing costs.

We are a small community bank with 28 employees. We feel currently our regulatory compliance takes 18% of our overhead costs. Due to the Dodd-Frank legislation, we can expect considerably more regulations needing to be complied with, yet to be determined, which will increase those costs in one form or another. We try not to operate with excessive employees, thus additional cost will be forthcoming. If we are to continue to offer current services and products to our customer base as we presently do, our bottom line and ability to grow capital will continue to be hampered.

Community banks don't have the capital markets available that larger banks do. It becomes a balancing act to grow a community bank and service our markets, while at the same time retaining earnings for growth and servicing debt by way of dividends. Basel III also proposes to phase out Trust Preferred Securities. If a community bank is sound and has a good record, why take that source of capital away from them? It doesn't make sense to me. Community banks just don't have the ability to get capital injections as the larger institutions.

Our Loan Loss Reserve continues to increase even though that increase is not due to problem credits, but rather to past financial crises and the regulatory environment of just wanting to see more reserve as well as more capital. Basel III will also add another layer of capital restrictions due to the reclassification of 1 to 4 family real estate loans from 50% risk weighting to anywhere from 35% to 100% depending on loan to value and repayment terms. This reclassification does not consider whether the loan is performing or the Bank's history of performance in this area. When considering the current push to increase loan loss reserve and capital, per regulatory request, it seems the methodology of Basel III is doubling up on the above loans by adding 150% risk weighting on loans over 90 days past due. Our current loan loss reserve calculation has already provided allocations for past due credits as well as general concentrations of loan categories such as 1-4 family.

I do not feel that Basel I, II or II.5 has provided the desired results, thus why should we feel Basel III will be any different. I feel we should do away with Basel all together and go back to the basics of looking at the Fas 5 and Fas 114 as being sufficient, based on the bank's management performance and the market they operate in. I feel FDIC Director Tom Hoening also has expressed these same concerns.

Working with the examination team, bank management should provide the best results on needed capital and loan loss reserve. If it is felt that increased capital is desired, why not make those capital requirements based on the market and what good banks or peer banks have in relation to loan history and the management team, within that market? It would also help if banks in each market are used in comparing to what is the norm on capital with 1 and 2 rated banks that are not on an acquisition program. Also 3 and below ranked banks should be taken out of the methodology.

The White Paper from the American Bankers Association for 2012 entitled "Key Banking Issues for Congress" states "The majority of ABA's members are banks with less than $185 million in assets". Also, OCC Chairman Tomas Curry stated, "87% of the Banks and Thrifts we supervise have less than $1 billion in assets". I feel, we community banks, did not contribute to the 2008 banking crises, involving mortgaged back securities and derivatives, yet we are being blanketed with new and proposed regulations that should not in any way be imposed on community banks.

It seems every time a banking regulation is given to banks it becomes a broad blanket and, in many cases, is more of a shotgun approach rather than a rifle approach. Why not be very specific on implementing regulations for banks over one billion and under one billion. Then follow that up with splitting out the FDIC Insurance into two different pools--those for banks above $1 billion and those below $1 billion. Then begin to apply bank's statistics on losses to those two different pools. Apply existing Fas 114 and Fas 5 and require capital based on the peer group with a given time to let the banks set aside earnings to grow their capital and or manage their growth, if that is an issue, on those two pools. When existing regulations don't work, we find ourselves just adding to the current regulations; never getting rid of regulations that don't produce the desired goals. It could be time to stop and reverse the way we regulate banks in some specific areas involving loan quality and capital levels, or at least focus on some basic criteria that has shown to work.

I was very interested in the September 12, 2012 article in the Wall Street Journal involving Bank of England's Director of Financial Stability, Andrew Haldane, and his colleague, Vasileios Madouros' statements. "The author's marshal compelling evidence that as regulation has become more complex, it has also become less effective. They point out that much of the reason large banks are so difficult for regulators to comprehend is because regulators themselves have created complicated metrics that can't provide accurate measurements of a bank's health."

I once visited with a representative from the Office of the Ombudsman. After some discussion, I asked the question or made a statement to this individual of how do you think we, as community banks, can continue to comply with all this regulation that really doesn't pertain to what we do as bankers and be profitable and service our customers, haven't you gone to your superiors and discussed this with them? That individual's comment was yes, I have and yes I agree with you, but after telling my superiors, they told me to just go back and do my job. That said volumes to me pertaining to what to expect in some areas. Some bankers who have gone to Washington from Kansas come back and tell me that they feel the regulatory system is trying to get rid of community banks. I, for one, have not seen that, but I do know that many community bankers are beginning to wonder.

That same Wall Street article discussed a quote by Albert Einstein saying "The problems that exist in the world today cannot be solved by the level of thinking that created them." Seeing a little of the other side while serving on the Kansas State Banking Commission, I learned we had a lot of good people in that agency that wanted to do what was right, but being able to work with all involved and not have a turf battle has always been an issue that had to be resolved. I have always tried to be aggressive in complying with regulations, so as to hopefully provide time to grow profits by means of taking care of our customers and developing and improving performance on an ongoing process and not have regulatory issues come back to create problems for us.
I'm hoping this process of letting all community bankers discuss this issue with you will enhance the final outcome to a more fair and productive solution. Thank you for your time.

Cordially Yours,

Richard D. Rucker
President/CEO/Chairman