



JAMES R. BROWN, PRESIDENT

October 17, 2012

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

Re: Basel III Capital Proposals

Dear Ms. Johnson:

I want to comment on the proposed Basel III document as recently approved by the three federal agencies involved in banking supervision. The Hardin County Savings Bank is a \$160,000,000 asset bank with headquarters in Eldora, Iowa, a town of 2750 citizens. Our bank has tremendous concerns about this proposal and what it may do to our ability to serve our customers, especially residential real estate loans and the fluctuations it may cause on our capital levels. I see virtually no relation of this proposal to a small Iowa bank and our financial stability, which I believe is the purpose of this proposal. I ask that you strongly consider repealing both the Basel III and the Standardized Approach proposals for several reasons. The two most onerous provisions are the immediate recognition of AFS changes in value for Tier 1 Capital and the effect it will have on residential real estate mortgages for all small banks.

Recognizing the market changes in value of our investment portfolio is by far the biggest threat to the Hardin County Savings Bank ability to maintain appropriate regulatory capital, maintain flexibility with our investment portfolio (keep most if not all of our investments in AFS vs. HTM) and the possibility of shrinking our asset base and deposits which will directly impact the ability to serve our loan customers. This doesn't begin to address the operational aspects of attempting to value our investment portfolio on a daily basis and how much time and money that will cost.

The fact that interest rates are historically low as well as the fact that farm loans are at our lowest level in over ten years compounds the problem. Our farmers are very liquid and that will continue to impact our loan volume for many years. This means we have much more funding in investments than historic levels and places even more stress on AFS as interest rates rise. We have almost \$3,000,000 in AFS value in our investment portfolio today. A 250 basis point increase in interest rates will more than erase this pseudo equity and place us in a negative FASB 115 position very quickly. 300 basis point moves in interest rates are not uncommon historically. What do you suggest we do to alleviate this risk if Basel III is in effect?

Putting it bluntly, this proposal is ludicrous for Iowa's Community Banks!

The residential real estate threat is very real although the total dollar effect on capital requirements is less onerous. This market is just beginning to recover from the mistakes that big banks and mortgage originators as well the government GSE's made for many years. Again, we are supposed to pay the price for mistakes we did not make. Our bank has had virtually no net charge offs in residential real estate loans for as long as I can remember. AND, we have to reevaluate our entire portfolio to determine risk weighting for capital requirements. If we weren't in the business to actually make money and maintain high capital standards, perhaps there is some value in these proposals. I just can't figure out what they are. Look at the record of Iowa banks the last 5 years. How many failed? How many of the troubled banks problems were in residential real estate lending or the quality of their investment portfolios? Then ask yourself what in the world you were thinking when you approved these proposals for banks of all sizes and culture.

Thank you for considering my comments. These issues are very important to the Hardin County Savings Bank and the customers we serve.

Sincerely,

A handwritten signature in cursive script, appearing to read "James R. Brown".

James R. Brown  
President