From: Tompkins State Bank, Keith Douglass

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

October 22, 2012

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

RE: BaselIII Docket No R-1430; RIN No 7100-AD87, Docket No R-1442; RIN No 7100-AD87

Dear Ms. Johnson:

My name is R. Keith Douglass, President/CEO of Tompkins State Bank, the FDIC is my primary regulator.

Our bank is approximately $190 million in assets with four locations in west-central Illinoisin towns with approximate populations of 900, 3500, 3800, and 33,000 people. We used to be almost exclusively an agriculture bank but have grown in commercial lending and we have also a large amount (for us) of 1-4 family mortgage lending.

We are very concerned about the impact of the proposed NPRs on our community bank's capital position and the impact of them on our ability to continue serving our customers and communities. We hope that you will re-consider this ridiculous standardized approach for risk weighted assets and do the right thing and exempt all community banks from the Basel III capital requirements. Community banks are already at a disadvantageous position in raising capital versus larger banks without the risk of Basel III.

We have three main concerns that will seriously impact our capital position if this goes through as currently presented: First, if we have to include Mark to Mark accounting on our bond portfolio in our Tier 1 capital calculations it could seriously lower our capital ratio. Currently we have a gain in our portfolio but it is only a matter of time before rates do go up and our portfolio could be at a loss. Also we hold a large amount of mortgage back securities at a premium. The combination of these and a spike in rates could lower our Tier 1 capital by up to 3%.

Secondly, we have a number of commercial and agriculture credit lines which are going to be assessed a 20% risk weight on lines due in less than one year. As our farm operations get larger these credit lines will grow and the increased risk weight will have a negative impact on our capital ratios.

Thirdly, we currently have $20 million in 1-4 family, five year balloon loans on our books representing about 18% of our total loan portfolio. These are loans made to support our small towns, with customers we know, and we require them to have "skin in the game" in the form of down payments. The impact of the Basel III proposal is to increase, by at least double, the risk weighting on these loans. We would ask WHY? On these $20 million local home loans, our current 90 day and over past due percentage is a whopping 1.11%. These are quality loans that our small communities need access to and they are an important 18% of our loan portfolio totals. Who is going to make these loans if we don't make them?

I thank you for the opportunity to comment on the proposed Basel III regulation and I once again ask that you EXEMPT ALL COMMUNITY BANKS from this onerous regulation. My phone number is 309-342-8161, and my email address is rkdouglass@tompkinsstatebank.com if I can answer any further questions or provide more information.

Very truly yours,

R. Keith Douglass
Tompkins State Bank