First Bank and Trust Company

October 17, 2012

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

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N. W.
Washington, D.C. 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Ladies and Gentlemen:

This letter is in response to the Basel III Notices of Proposed Rulemaking issued in June of this year.

It may very well be that bank capital regulations need to be revised and increased. Without a doubt, the structure of the very large institutions needs to be addressed to lessen systematic risk in the financial system. It seems to me that Basel III misses the mark entirely as it is a plan that has been formulated more for the European system of banking and has little regard for banking in the United States and in particular, the vast diversity of community banking in rural America. Regulators would be well advised to follow Mr. Thomas Hoenig's recommendation to scrap the entire proposal and start over.

My first major area of concern is the inclusion of unrealized gains and losses in our available for sale securities portfolio. Interest rates have fallen to levels that are unsustainable and undoubtedly will increase. As rates increase, the paper value of our securities portfolio will diminish. Our bank has a securities portfolio of approximately $40 million with an unrealized gain of about $1 million. We have a very conservative portfolio both in terms of composition and maturity. The duration of our portfolio is right at three years. If interest rates would increase by 300 basis points, our capital would be reduced by $3.6 million, nearly half! That is very punitive when one must consider that we have ample ability to hold all of our bonds until maturity and will realize par value.

P.O. Box 147 · Minden, NE 68959 · 308-832-2030 · Toll Free: 800-448-4823 · Fax: 308-832-0420
Web Site: www.firstofminden.com

The result of this type of regulation will be that we will most likely not be willing to invest in local municipal bonds. Our municipal bond portfolio is made of entirely Nebraska issues. We buy many bonds that are longer maturity, ten to fifteen years. These are almost entirely all small issues to finance hospitals, schools and improve infrastructure of our small rural communities. Community banks are the primary supporter of this type of public financing and the cost will surely increase if banks such as ours are forced out of the market as most certainly will be a result of Basel III.

New risk weights will undoubtedly force changes to the composition of our loan portfolio. We support the local residential housing market by originating and keeping in our portfolio a number of non-conforming loans. Treatment of these types of loans under this proposal, as well as all of the new hindrances imposed by Dodd/Frank, will make this financing impossible for community banks to participate in. Our local housing markets will suffer and first time home buyers will be at a significant disadvantage.

Credit conditions in agriculture are strong. The ebb and flow of agriculture will certainly turn to more challenging times financially. As this occurs, farmers and ranchers will need more borrowed capital. If this happens in conjunction with an increase in interest rates, community banks may not have the capacity to meet increased loan demand. It is critical for our local economy, and the bank's viability, to be able to meet the credit needs of our farmers and ranchers. This proposal will place this in jeopardy.

Our bank has a strategic goal of increasing our loan loss reserve to better protect the bank as our agricultural clients become fewer and larger. This proposal discourages this practice by the limitation of 1.25 percent of risk-based assets in the loan loss reserve. Placing this type of limit on the capital conservation buffer seems to be not well thought out. If increasing capital is the goal of this proposal, why limit the very best means of a community bank to accumulate capital for tough times?

Another major concern is the distribution prohibition on community banks with a Subchapter S corporate structure. Individual shareholders are required to pay taxes on the earnings of the bank and most S corp. banks have agreements whereby dividends are paid to meet this liability. Those banks with a Subchapter S corporate structure would need to be exempt from the capital conservation buffers to ensure that their shareholders do not violate the provision of the Internal Revenue Code. These capital conservation buffers should be suspended when the bank generates taxable income for the shareholder.

Sincerely,

Kelley Ayres
President