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October 12, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 205551

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
240 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219

RE: Basel III Proposed Capital Rules

Ladies and Gentlemen:

I appreciate the opportunity to comment on the Basel III proposed rules that were recently issued by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. I fully support the need to have a banking industry that is well capitalized to ensure that it will successfully weather economic storms in the future. However, I do have concerns about the proposed rules.

I am a fourth generation community banker. Our bank was chartered in 1928. We survived the Great Depression, the Ag Crisis and most recently, the Great Recession. We are headquartered in Bennington Nebraska, have $67 million in total assets and have one branch located in Omaha, NE. We are a typical community bank serving small businesses and farmers. We also serve consumers of all means, especially through our mortgage department which has provided over $45 million this year in home loans to people living in our community. We are dedicated to our community and we strive to be a leader in helping it thrive.

We, like most other community banks in the country, want to make sure that we are able to continue serving all of the financial needs of our community. A strong economy is dependent on job growth and job growth is fueled by small business. Community banks are the primary source of capital for the majority of small business and we want to ensure that the new rules do not reduce our ability to provide this capital.

The following are the specific areas of the proposed rules which cause me the greatest concern:

1. **Capital gains and losses on available for sale securities must flow through to regulatory capital.**

   During this period of extremely low interest rates our Bank has chosen to keep the duration of the majority of investments in our portfolio short to avoid what we see as potentially high interest rate risk. However, we do continue to support our community by purchasing longer term municipal bonds. If we are required to include the changes in value as part of our capital, we will likely curtail our purchases of municipal bonds. This may result in a higher cost of borrowing for our community.

2. **Increased risk weighting for owner occupied residential real estate loans.**

   Our bank is a significant provider of home loans. In the entire history of the bank we have had losses relating to two loans. We have stringent underwriting criteria that have served us well. We take pride in our ability to help our customers achieve the American dream of home owneship. We have developed a special program designed to assist the Burmeese refugee population in our community to buy their first home. This proposal threatens to significantly reduce or possibly even eliminate this program. Through this proposal, community banks are being forced to pay for the sins of others related to the housing crisis. The proposed risk weightings are higher in many cases than loan types that we would consider much riskier.

3. **Requirement to hold capital for representations and warranties on 1 - 4 family residential real estate loans that have been sold into the secondary market.**

   Our bank originates a significant number of secondary market loans. This section of the proposal is ambiguous and it is difficult to determine what reps and warranties would cause the bank to set aside capital and for how long. The reps and warranties that are part of our correspondent contracts relate solely to fraud on the banks part and are considered life of loan reps and warranties. Or Bank has sold over $150 million in secondary market loans over the past 20 years. We have never been asked to buy a loan back. This proposal could require us to set aside $1 to $1.5 million in capital for loans that were sold in the past and for which we have very minimal buy back risk. This rule as proposed threatens to force all community banks out of the mortgage lending business which would be bad for consumers and horrible for the housing market.

4. **The limitations on mortgage servicing assets as part of common tier 1 equity and the risk weighting associated with mortgage servicing assets.**

   As I mentioned above, our bank is a significant originator of mortgage loans. We also service the loans we originate. We believe that we provide a much higher level of customer service than the large servicers and that our customers deserve great service. While our current mortgage servicing assets are less than 10% of CET1, I would expect that in the next few years we will pass that threshold. The inability to include all of the value of our mortgage servicing assets in CET1 combined with a risk weighting of 150%, will force us to sell mortgages servicing released. This would be a huge disservice to our customers, will significantly reduce our income, and will likely result in the need for us to lay off team members who work in servicing.

5. **Proposed rules regarding home equity lending.**

   Our bank currently holds approximately $10 million in home equity loans. The majority of these loans would fall into the 80% to 90% loan to value range resulting in a 150% risk weighting. Most of these loans were either used for purchase money or renovations on existing homes. We have never lost money on a home equity loan. A risk weighting of 150% will force us to curtail home equity lending. It also encourages unsecured lending (100% risk weighting).

I agree with the need for adequate capital requirements for the financial services industry, credit unions included. However, I think that the proposed rules are full of unintended consequences. As the rules get more complex and the penalties for non-compliance get greater, the willingness for all bankers to permit discretion at the point of interaction will be reduced. This impacts the ability of Community Banks to be effective in their markets and drives our entire business to commoditization. If we can't permit discretion at the point of interaction with the customer, and we centralize processes away from the market, branch banks will become ATM's with people inside. The complexity included in these proposed rules and the myriad of other new rules and regulations being thrust on community banks will have the effect of commoditizing the business and stopping us from serving our customers properly. Our banking system is far different from any other system in the world, and we should therefore not be forced to comply with the same rules. Our customers and our communities deserve better.

Respectfully Submitted,

Leslie R Andersen

Leslie R. Andersen
President & CEO