RAMSEY
National Bank
www.ramseybank.com

3232 25th St S . Fargo ND 58104-6540
Phone 701.280.2292 . Fax 701.298.8576

October 15, 2012

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

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Ramsey National Bank is an employee-owned community bank serving the needs of our customers through our offices in seven mostly rural communities in central and eastern North Dakota. Over the years we have been extremely proud to provide these communities with consistent banking services, while retaining sufficient earnings necessary to provide for growth and maintain our regulatory "well capitalized" position. We have been diligent in our efforts to improve asset quality and mitigate interest rate risk. Our goal is to sustain capital at consistent levels regardless of the volatility of interest rates.

In order to provide flexibility in managing interest rate risk, we carry virtually all of our investment securities in the Available For Sale category. This provides the bank with the flexibility to sell securities, if necessary, to manage its interest rate risk, as well as insure adequate sources liquidity. While the investment portfolio shows a large market value appreciation today, that appreciation will disappear when rates rise. Including the unrealized gain or loss of the investment portfolio in the capital calculations as proposed by Basel III would certainly create increased levels of volatility in our bank capital ratios. Under this scenario, it would be possible for the earnings of the bank to remain the same, but have the capital ratios fall precipitously. A bank could hold 100% of its investment portfolio in U. S. Treasury securities, and see capital ratios fall in a rising rate environment because of market value depreciation, even though the risk profile remained "riskless". This does not seem to make much sense, especially for a community bank

Another area that Basel III capital computations would impact our bank would be in the capital required to hold in-house 1-4 family real estate loans. Over the years we have provided loans to families to purchase homes, and for various reasons, some of these loans are not sold in the secondary real estate loan market, but are held on our books. Often times these loans are in rural areas that do not qualify for the secondary market. To mitigate interest rate risk, these loans may have a 20 year amortization schedule with a five year balloon payment. Prudent interest rate risk management would dictate that we not fix a loan for twenty years with funds provided by a five year liability. Under the present capital guidelines, these loans would have a 50% risk rating, but under Basel III they will have a 100% risk rating. It seems that interest rate risk management and the Basel III guidelines are on the opposite ends of a seesaw.

These are just a couple of examples as to how Basel III would impact our bank. Basel III has many more negative impacts on community banks that are not enumerated in this letter, including the overhead in gathering and maintaining all the necessary information necessary for the quarterly computations.

Your consideration in exempting community banks, such as ours, from Basel III would be greatly appreciated.

Sincerely,

W. J. Lempe, CPA
Senior Vice President