

HERSHEY STATE BANK

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October 5, 2012

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

Robert E. Feldman, Executive Secretary
Att: Comments & Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington DC 20429

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

Re: Basel III Capital Proposals:

Dear Regulators: We appreciate the opportunity to comment on the recent Basel III proposals and our opinions on the need to have small community banks exempted from the regulations.

I have been President/CEO of this small (50 plus million in assets) Community Bank since obtaining a state charter some 44 years ago. We have a diversified economy and loan portfolio, we are located in a strong Ag sector with good, mostly irrigated soils, we are at the edge of the well known Sandhill cattle ranching country and just 12 miles from North Platte NE with its' wealth of blue collar workers at the world's largest railroad yard.

We are and have been, since recovering from the Ag crisis of the 1980's a well capitalized bank. With a strong loan to deposit ratio, our security investments are minimal and concentrated in government guaranteed agencies. Although by practice we hold the securities to maturity, we have always considered them part of our primary liquidity and if available for sale, could affect our capital under Basel III. Also the Ag crisis taught us that in time of crisis, many times it was better both for the bank and the borrower/community if we are able to work with the borrower, many times carrying the note in a past due condition until the borrower could be restructured to again become a bankable loan. We have always funded to the maximum our Loan Loss Reserves account to reduce the risk in this practice. Due to the adjustment in capital requirements, Basel III will either affect our lending limits, which is crucial in small banks with large Ag borrowers, or force premature liquidation of borrowers, perhaps at inopportune times, again causing losses to either the bank or the borrower or both.



- Community Banking, Insurance and Investment Center -
Hershey Bank Online at: www.hersheystatebank.com

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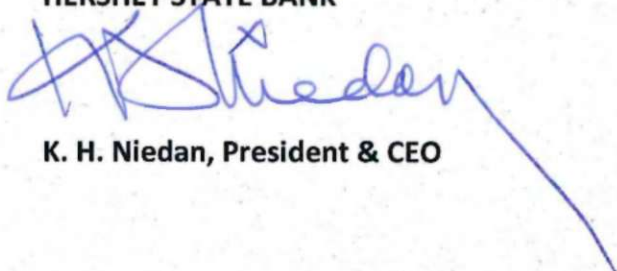
I am also concerned with the change in application of capital to mortgage loans sold into the secondary market and still serviced by our Bank. A number of years ago, as long term mortgage loans rates began to soften, our borrowers wanted to lock in the lower rates for longer periods of time then we could match fund with deposits. In order to continue to serve our community we began making the long term lower interest rate loans and selling them into the secondary market and retaining the servicing locally in our Bank. This has been a popular practice and borrowers are quite pleased with the ability to talk directly to a real person in the form of their Loan Officer if they have questions or problems meeting their obligation. If, I understand it correctly, Basel III could eliminate this source of income for our bank as well as then destroy a borrowers highly desirable ability to communicate directly and locally with his or her community Bank Loan Officer.

Of general concern is the addition of more and more regulations and our both having the ability and the staff to comply fully with the requirements. Our current compliance regulations require the major portion of 1 ½ officers' non income producing time, the cost of which must be passed on to our customers in one form or another. The proposed new regulations being promulgated by the new Consumer Protection Bureaus will add additional costs in staff and compliance. When and where will it all stop, why must all these new regulations lump we small community banks together with the mega "too large to fail" banks that caused all the problems in the first place. Surely, someone, or some combinations of regulators have the authority and the wisdom to come up with a plan that exempts those of us that had nothing to do with the problems Basel III is trying to address.

I thank you for letting me express my views.

Sincerely,

HERSHEY STATE BANK



K. H. Niedan, President & CEO

