



**FARMERS** *State Bank*

CARROLL, NEBRASKA 68723

October 17, 2012

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

Office of the Comptroller of the Currency  
250 E Street, S.W.  
Mail Stop 2-3  
Washington, D.C. 20219

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am president of a \$25 million agricultural bank in the northeast corner of Nebraska. We are a traditional, conservative community bank that cares very much for our customers, employees and our Village of Carroll. We work hard to remain stable and consistent for our community by maintaining high marks in safety and soundness, compliance and all the related regulatory requirements. Without our bank providing real estate loans, agricultural loans, small business loans and consumer loans to our area, our community would suffer. I am greatly concerned about the effects Basel III will have on our ability to continue supporting the economic development opportunities in our community and surrounding rural area.

As of June 30, 2012 our Tier One risk based capital ratio was 13.13%. We have always believed in maintaining strong capital. Basel III calculation would drop this figure to a point that would still be considered adequate, but definitely headed in the wrong direction and could be cause for further regulatory scrutiny and reduced lending. This adjustment to capital would be made even though nothing changed other than the interest rate environment. We have always held our bonds to maturity, we have a very conservative investment philosophy and our portfolio is made up primarily with government backed agencies. These investments have little, if any, risk of loss, but are subject to interest rate risk that we manage as closely as possible.

Our primary concern is how capital relates to our legal lending limit. Generally a bank's lending limit goes up and down as capital goes up and down. In small community banks such as ours, many customers are close to that legal lending limit we currently have. If Basel III causes us to have a

significant drop in capital and substantially lowers our lending limit we risk losing customers to larger financial institutions and could in an overall effect substantially hurt our community.

Increasing the risk weighting of delinquent loans would not be a problem, for us at present, but we lived through the agricultural crisis of the 1980's. We have always carried a more than adequate loan loss reserve and use prudent lending practices. Managing the loan loss reserve is a more practical and prudent method to handle loan risk versus the risk weighting on capital levels.

Finally, the overall complexity required to interpret and follow the rules of Basel III will increase our overall costs. Our small rural bank has four full time personnel. We don't have the additional staff or computer systems to meet the reporting and calculation required under Basel III. To do so would require additional expenses on the part of our bank and the banking industry overall.

Our ability as a bank to help our economy grow and to support the community of Carroll is dependent upon the capital of the bank. We have always maintained adequate capital and been a partner for community growth and development. If our bank is not allowed to continue these activities our community suffers. This is the story of small-town rural America. This is the unintended consequence of additional regulation. We agree that America needs a safe and secure banking system, which means strong capital. I also refuse to turn my back on the people of our community.

My hope is that you will reconsider the need of Basel III, especially at the cost of our rural, small town communities.

Sincerely,

A handwritten signature in blue ink that reads "Susan Gilmore". The signature is written in a cursive style.

Susan Gilmore  
President