From: First State Bank, John Engelbert

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

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Comments:

I am the president of the First State Bank in Norton, Kansas. Our bank was chartered in 1902 and is a $300 million institution located in northwest Kansas. We are a community bank, located in four towns all of which have populations of less than 3,000 people. We primarily serve the agricultural industry, but also have a nice mix of manufacturing and service industry. Our bank is primarily owned by a local farming family.

Please be advised that our bank OPPOSES the Basel III regulations as proposed. The regulation would be very burdensome and costly to revamp our computer systems to accurately calculate the Basel III capital ratios. However, the main concern with the proposed regulation is it includes Unrealized Gains/Losses in the new capital calculations. Our bank has a large volume of securities in relation to loan volume due to weak loan demand. If Basel III requires Unrealized Gains/Losses in our investment portfolio to be included in capital calculations, our bank will be undercapitalized when interest rates increase (all of our investments are held in available for sale for liquidity purposes). Our bank does not have access to capital markets like larger institutions. Thus we would have to shrink our investment portfolio to minimize the potential interest rate risk associated with rising rates. Obviously shrinking the bank would result in loss of earnings and loss of employees.

In addition, we would have to reduce our loan volume to minimize interest rate risk. This would cut off the life blood of our rural farming communities. None of these scenarios are a positive for banking or for the economic well-being of our rural communities.

If Basel III becomes law, many community banks will be forced to sell to larger institutions with more sources of capital, or simply close their doors. This will result in an absence of financial services in rural America, which may ultimately lead to many citizens of these communities without ample access to credit and other banking needs. In short, Basel III will be a threat to the viability of this nations small communities.

I have been in banking for 23 years and I am also a former FDIC bank examiner. Community banks have been reporting unrealized gains/losses on their investments for years, yet they have never been included in the Tier 1 capital ratio. In my opinion this has not threatened the capital position of community banks. Community banks are aware that these unrealized gains/losses are just that . unrealized. They do not capitalize their banks dependent upon gains, nor do they feel threatened when they experience unrealized losses. Community banks are also privately owned, thus they don't deal with public stockholders. The current capital structure works well for community banks, please don't add a regulation that will be the demise of community banks. PLEASE SCRAP BASEL III FOR ALL COMMUNITY BANKS (banks less than $10 billion).

Thank you for letting me comment on this proposed regulation.

John P. Engelbert
First State Bank