UNION
STATE BANK

September 28, 2012

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
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, D.C. 20429

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

This letter is written in response to the proposed Basel III Notices of Proposed Rulemaking (NPR) issued in June 2012.

Our Bank was chartered in 1908 and currently has total assets of $240 million. Union State Bank has six facilities in Cowley County, Kansas and would be classified as a "community bank." We strive to serve all communities in our market area with the services (deposit and loan products) they require.

We think the proposed Basel III requirement should be directed toward the very large domestic and foreign banks. Small community banks did not create the recent economic crises and, by and large, did not originate subprime mortgage loans that were made.

The **first** issue we have with the NPR is recognizing unrealized gains and losses on available for sale securities. Including this item in the Tier 1 Leverage and the new Common Equity Tier 1 ratios will distort our Bank's true capital structure. We have chosen to classify all our securities as Available for Sale rather than Held to Maturity. This classification helps in managing liquidity and interest rate risk.

P.O. Box 928
Arkansas City, KS 67005
620-442-5200
Fax 620-442-8081

P.O. Box 539
Winfield, KS 67156
620-221-3040
Fax 620-221-7883

P.O. Box 346
Udall, KS 67146
620-782-3311
Fax 620-782-3101

Toll Free: 866-557-0060
www.myunionstate.com
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However, if the NPR is adopted, we would have to consider reclassifying some securities to Held to Maturity and play the balancing game of capital needs versus liquidity needs. We would also shorten the duration of our portfolio to limit the large swings in market value of the portfolio. This in turn would lower our portfolio yield and thus our earnings. We would also limit the purchases of longer term municipal bonds. In the past, we have supported our local communities by participating in their bond sales.

We would suggest the Tier 1 Capital leverage ratio remain as it currently is calculated. The market swings in valuations are taken out and the result better reflects the Bank's core capital as a percentage of total assets.

The **second** issue with the proposal is with risk weighting for residential mortgage loans. Our Bank has a significant number of 1-4 family residential loans that have a balloon payment. In the proposal, the majority of those loans would be reclassified to be 150% risk weighted category. We have had very few charge offs of these loans over the years and they have been adequately reserved in the Allowance for Loan Losses. It seems redundant to also account for this risk in the capital calculations. If the NPR were finalized as proposed, our Bank would have to strongly consider discontinuing this product. Our customers would then either not become homeowners or would have to make application in a distant metropolitan bank. The same arguments above would also apply to second lien loans we readily make to our local customers.

Finally, our current software system does not collect and report the data required in the NPR. A costly software update would be necessary. Added costs for compliance on a continuing basis would result.

Now is not the time to further restrict community banks in what they do best – helping their local businesses grow and add jobs, providing deposit products that are reasonable in cost and loan products that can be structured to local needs.

Capital adequacy and loan loss reserves are important and necessary, but this NPR would greatly impede community banks from serving the needs of their customers.

Yours truly,

William R. Docking

WILLIAM R. DOCKING, Chairman and CEO

MARK H. HORNING, Chief Financial Officer