WATFORD CITY BANCHARES, INC

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

First of all, thank you for the opportunity to provide comment 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.

The Basel III proposals would have an unnecessary negative effect on the health and well-being of community banks and the communities in which they reside. Our bank holding company in particular will be affected specifically because of our use of trust preferred securities that are currently included in our tier 1 capital ratios.

It was our understanding that the intent of the *Collins* amendment of the *Dodd - Frank Act* to permanently grandfather tier one treatment of TRUPS issued by bank holding companies between $500 million and $15 billion.

Phasing out this important source of capital would be a particular burdensome on us because it would cause a $2,000,000 or more per year phase out of our securities. This can only result in further hindrance of liquidity and a weakened ability to lend to our customers across our footprint because it would require us to further limit our growth to keep up with capital requirements. **Therefore it is our position that bank regulators should continue tier one treatment of trust preferred securities for bank holding companies up to $15 billion in assets.**

A second troubling aspect of Basel III is the distribution limitations for banks with Sub Chapter S-Corp status. Because of these regulations the fundamental purpose of a subchapter S corporation would be violated and the owners of these banks will be limited in their ability to even make tax payments to the IRS if limitations are imposed. We feel that any limitation on the rights of these institutions to distribute income to their owners violates fundamental principals of banking and a free enterprise business community. **Sub Chapter S banks should be exempted from any further Basel III regulations without exception.**

Third, **any implementation of capital conservation buffers for community banks should be delayed at least an additional 5 years.** Community bank by their nature are small, and do not have access to capital markets like large publicly held banks. We have to do it the old fashioned way, by building retained earnings over time to comply with any Basel III requirements. In the current low interest rate environment, it is difficult for any financial institution (especially community banks) to make adequate earnings, and to build in capital conservation buffers would only hurt their ability to build retained earnings even more.

We ask you to consider our input when reaching your decisions on Basel III. Community banks are the life blood of towns in small states like North Dakota. Regulations made for a New York City bank simply do not work for banks based in Watford City, North Dakota.

Sincerely,

Erik Stenehjem
Treasurer
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