THE HARVARD STATE BANK

THE HARVARD STATE BANK
35 N. AYER STREET
HARVARD, IL 60033
TEL: 815.943.4400
FAX: 815.943.4759

HEBRON COMMUNITY FINANCIAL CENTER
9605 MAIN STREET
HEBRON, IL 60034
TEL: 815.648.2481
FAX: 815.648.4644

COMMUNITY BANK OF ROCKFORD
2470 EASTROCK DRIVE
ROCKFORD, IL 61108
TEL: 815.397.3111
FAX: 815.397.3217

COMMUNITY BANK OF OREGON
101 S. 4TH STREET
OREGON, IL 61061
TEL: 815.732.3111
FAX: 815.732.3115

September 28, 2012

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

Dear Ms. Johnson:

My name is Roger L. Lehmann, President/CEO of The Harvard State Bank, Harvard, Illinois. Our primary regulator is the FDIC.

I am writing to you today to express my concern relative to the capital regulation that is going to be put in effect as of January 1, 2013. In my opinion, the Basel III if indeed covers the small community banks will greatly adversely affect them and their ability to make loans to their customers. I believe one example of this is that for many years the regulators have encouraged banks to minimize their interest rate risk by having three and five year balloons Now, with Basel III, this will adversely affect our risk rated capital. Our Bank has about $240 million in assets of which approximately $150 million are loans to small businesses with our largest concentration being our one to four families which constitutes about 30% of our lending portfolio. In addition to this we make, as I said, loans to small businessmen and farmers in our geographic area.

What I have been able to determine so far, in looking at the Basel III regulations is that if this covers banks such as ours, we will have to stop making loans to small businessmen and real estate loans for our capital account under risk based capital will not support it and I assume that this will happen for most of the community banks in the United States. So therefore, we will end up with 25 large mega-banks in the country as the European model is at this time. This is a real concern of mine for who will take care of the small businessmen and the consumers.

It is my understanding that when Basel came out 10 to 15 years ago, it was for the purpose of standardizing the accounting system for international banks and if a bank in Switzerland was going to make a trade or a contract with a bank in Tokyo, they needed to know what their financial statements stood for. In the United States, we've had

FASB regulations for standardizing our financial statements for many years. So, therefore, if a bank had a contract with another bank in a distant state, the two persons entering the contract could review these financial statements and understand the risks they are taking by entering into these contracts.

I do believe there is a place for Basel III in the world for the international banks that do trade across the globe into different countries. But, I do also believe that we do not need Basel III for community banks with the FASB accounting that has been in place for many years in the United States.

Therefore, I request that you reconsider your proposal and limit this to the $10 billion and larger banks as originally planned.

Thank you for giving me the opportunity to comment on the proposed new regulation and express my concern that this will be a detriment for the community banks and will have unintended consequences. I look forward to having dialogue with you on this subject. My telephone number is 815/943-4400. My E-mail address is rlehmann@thehsb.com.

Thank you for your time and consideration. I look forward to hearing from you.

Sincerely yours,

Roger Lehmann

Roger L. Lehmann
President
RLL/kms