Anchor State Bank

James R. Eckert
President and Trust Officer

October 6, 2012

Re: OCC - Basel III Docket ID OCC-2012-0008, Docket ID OCC-2012-0009
FRB - Basel III Docket No R-1430; RIN No 7100-AD87, Docket No R-1442; RIN No 7100-AD87
FDIC-Basel III RIN 3064-AD95, RIN 3064-AD96

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

Office of the Comptroller of the Currency
250 E St., SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman, Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429

Dear Regulators:

We appreciate the opportunity to comment on the Basel III proposals and thank you for extending the comment period to allow us to better prepare our comments.

By way of introduction, let me describe our bank. We are a one-office locally owned community bank with assets of approximately $15 million. The bank was established in 1895 as a private bank and chartered as an Illinois state bank (insured by the FDIC) in 1920. Our one-bank holding company is regulated by the Federal Reserve System.

We serve the small town of Anchor (pop.150) and several other small communities within 15 miles of our office as well as the adjacent rural areas. Our client base is primarily farmers, small businesses, and consumers who live and work in or around the small towns we serve. We are located 25 miles from any community in excess of 4,000 in population. The total population of our market area would be less than 20,000 and there are at least twenty financial institution head offices or branches competing with us in these areas.

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Our staff consists of three full time employees (including me) and two part time individuals who each work one day a week and during full time employee vacation and absences.

As to my experience, I began in banking as a teller in 1968, advanced into a management position, helped charter a community bank, and have managed three small community banks, including Anchor State Bank, where I have been CEO since 1979.

For many years I have written comment letters on regulatory proposals, but gradually reduced my comment letter writing because (1)I felt the regulators had already decided what they were going to do and had no interest in listening to small bankers' comments, and (2)the constantly increasing volume of new rules, regulations, interpretations, best practices, etc. in the banking industry leave the small town banker little time to write comments, which will probably be disregarded.

Frankly, I write this letter only because the Basel III proposals are grossly <u>unfair</u> and <u>asinine</u> when applied to banks under several billion in assets, particularly small community banks.

I know you do not want to hear this and the regulatory staff people who crafted this regulation will be insulted, but that is the way the vast majority of community bankers feel. It is this sort of regulatory overkill which leads community banks to feel that the government and the regulators would like to see small banks out of business and all financial assets under the control of a few money center banks.

We request that you exempt our bank and all community banks (at least up to $10 billion in assets) from this regulation, which may be needed by the large money center financial international institutions, but is burdensome and un-necessary for small banks. The "one size fits all" approach makes no sense when regulating anything, especially huge multi-national firms and small local operations. It is unfair to small banks that are not involved in risky international lending or other risky investment schemes.

Our bank has not been involved in international banking, has not originated any sub-prime residential mortgage loans, has not sold loans in the secondary market, has not been involved in derivative securities, has not operated a brokerage business, has not accumulated a large credit card loan portfolio, has not accumulated a large, high LTV home equity loan portfolio, and has not participated in any of the other risky activities which brought the "too big to fail" financial conglomerates to their knees in recent years.

We have nothing in common with the money center banks and brokerage houses other than perhaps the word "*bank*" in our name.

Because of the missteps and misdeeds of the "too big to fail" institutions, community banks are constantly vilified in the press and by an unsophisticated public which listens to the nonsense that all banks are responsible for the current economic malaise, banks are sitting on boatloads of cash, unwilling to lend, etc. This is not to mention the unnecessary and often undeserved additional scrutiny and micro-regulation we get from our local examiners.

We feel the current regulations concerning capital are sufficient and appropriate to community banks.

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While we currently would meet the Basel III requirements for risk-based capital we feel they overly complicated, excessively burdensome, and not appropriate for small community banks. We have serious objections to some of the proposals.

Although I do not have the time to comment on all of the proposals to which we object, I would like to comment on two facets of the proposed regulation which we find the particularly irksome and onerous:

Balloon Real Estate Loans

Traditionally our bank has issued five year balloon residential real estate loans with a maximum 25 year amortization. Most of such loans are to low and moderate income folks. The loan amounts are usually much less than $75,000, a market segment that is of little interest to larger banks that originate strictly for sale in the secondary market.

All of our residential real estate loans are retained by the bank. We do not have many long term deposits. Accordingly, we have felt it imprudent to offer long term fixed rate maturities. Borrowers who have maintained good payment histories have always been offered extensions/modifications at balloon maturities. If we were to refuse renewal on these loans as they reached a balloon maturity date there are plenty of nearby competitors desiring to make new loans. Losses on these residential real estate loans have been minimal in the 33 years I have managed this bank. They certainly constitute less risk to the bank than auto and other consumer loans. Most people will pay for their home, even if they cannot pay their other loan payments!

Thus, we feel it is not appropriate to risk-weight these loans at 150%, as they represent little or no risk of loss. The current 50% risk rating seems appropriate.

Also, as these loans pay down, it is unfair to maintain the risk weight the same, even though the loan to value declines to a lower LTV "cutoff".

Security Appreciation/Depreciation

In looking back at our bank's history I find that when the current *"Available for Sale"* rules went into effect (12/31/1993) our bank had unrealized **appreciation** of 3.0% of capital accounts in our bond portfolio under "mark to market" accounting.

One year later (12/31/1994), due to a large increase in the general level of interest rates (prime increased from 6% to 8.5% during that period), we had **depreciation** in the bond portfolio amounting to 15% of capital.

A year after that (12/31/1995) during a period of fairly level interest rates, due to portfolio maturities and new purchases at higher rates, the depreciation had declined to less than 2%.

Clearly we survived the 18% "swing" in the valuation of our portfolio with no effect on our operation!

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The bank did nothing to create this volatility in the valuation of the securities portfolio and this volatility did not effect the operation of the bank or our ability to serve our customers. Under current rules volatility in the community bank investment portfolio does not affect a bank's ability to operate (even though based on market value accounting capital declines) and for this reason alone security appreciation or depreciation should not be considered in calculating capital ratios. A change such as this will force banks to purchase very short term, low yielding securities to avoid market fluctuations - at exactly the time when bank profitability is under pressure and regulatory scrutiny! And, it could force a bank to raise unnecessary capital exactly at a time when new capital would be expensive – again damaging the profitability of the bank.

Again, we appreciate this opportunity to comment on the proposed regulation and hope that the regulators see fit to exempt community banks under $10 billion from the Basel III regulations.

If anyone on the staff has questions or needs further clarification of my comments I can be reached at the address, phone number, and email address below.

Sincerely,

/s/

James R. Eckert
President and Trust Officer