October 18, 2012

To: Department of the Treasury: Comptroller of the Currency
regs.comments@occ.treas.gov

Subject: Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements

To: Federal Reserve System
regs.comments@federalreserve.gov

Subject: Docket No. R-1442; RIN No. 7100 AD 87 Regulatory Capital Rules

To: Federal Deposit Insurance Corporation
comments@FDIC.gov

Subject: FDIC RIN 3064-AD 96 Regulatory Capital Rules

Dear Sir or Madam:

Thank you for the opportunity to comment on the Federal banking regulatory agencies proposal addressing Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements. Landmark Bancorp, Inc. is the holding company for Landmark National Bank, a $650 million Kansas community bank. We serve a total of seventeen urban and rural communities across the state of Kansas. We also have a significant mortgage banking function that we forecast will originate over $200 million in conforming one-to-four family residential loans, some of which are retained and some which are sold, either servicing retained or servicing released. The proposed rules will have a negative impact on our bank which will also have a negative impact on the Kansas communities that we serve. I will outline my primary concerns below.

- **Requirement to Have Unrealized Gains and Losses on Available For Sale Securities Flow Through to Regulatory Capital:**

This provision causes me the most concern of any of the multitude of changes itemized in the proposed rule. It is inconceivable to me that we must mark the security portion of our balance sheet to market for capital rules but do not get the benefit (or penalty) of marking the rest of our balance sheet to market. Marking only a portion of the balance sheet to market will nullify many banks' efforts to manage total balance sheet risk due to the disparate treatment of different classes of assets. This will make regulatory capital much more volatile and banks much less likely to take risks that they have previously taken due to the fact their capital will fluctuate wildly with changes in market interest rates. Community banks such as ours, even though we hold the securities in the Available for Sale category, generally do not sell significant portions of

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our securities portfolio, for either gains or losses. We hold the securities in AFS as a liquidity hedge in the event we have a liquidity need over and above our normal resources. We certainly do not trade our securities. If this provision takes effect we will reduce the amount of loans in the portfolio in an effort to boost our risk weighted capital. This change will be necessary in order to hedge against increasing interest rates and the impact they will have on our capital due to the decreasing market value. I urge you to eliminate this portion of the proposal.

- **The Impact of the Proposed Capital Rules Related to Mortgage Servicing Assets and Our Services To Customers:**

This proposal reduces the amount of Mortgage Servicing Rights that we can count toward our CET1. It further eventually increases the risk weighting on these MSRs. We retain servicing primarily in response to customer requests to have their mortgages serviced by a local institution where they feel they receive a higher level of service and can have questions answered more easily and quickly. One downside to MSRs is the added volatility they can add to bank earnings with material downward changes in interst rates and the resultant impairment on the value of the MSRs. The proposed changes to capital treatement of these MSRs, coupled with the volatility of earnings caused by MSRs, will cause us to cease retaining loans for servicing. This will reduce the quality of service we can deliver to our customers.

- **The Proposal Will Phase Out all TruPS:**

Over the last several years we have acquired several other community institutions in Kansas that had aging ownership and management and were looking for an exit strategy that would allow their customers to continue to be served by a community bank. While we do not have an over dependence upon TruPS we did utilize them within prudent limits to supplement our regulatory capital base. We made this long term capital decision relying upon the rules that were in place. We have always managed our institution in a conservative manner and never ran our capital close to the regulatory minimums. We feel it is imperative that we continue to grow so that we can more effectively deal with and manage the increasing regulatory burden that is being imposed upon community banks. However, if this proposal takes effect it will have a material impact on our capital and cause us to either replace the lost regulatory capital or take other measures to manage our capital to a level that we feel is prudent. This will result in fewer loans to customers within our community and a much more conservative approach to possible acquisitions where ownership and management are aging and looking for an exit strategy. Lastly, I find it hard to understand how the agencies can change, on a retroactive basis, the capital treatment of TruPS that they had previously allowed. Many institutions took the agencies at their word and made long term plans on those rules which are now being retroactively changed. Most community banks do not have access to the capital markets like the larger money center banks.

- **Proposed Rules Regarding Residential Mortgages:**

I mentioned at the start of this correspondence that our bank had a material mortgage banking operation. We have approximately thirty percent of our loan portfolio in one to four

family residential loans. We have not had any material losses in this portfolio. We have always underwritten our loans prudently and our delinquency and loss ratios confirm this. I think it is safe to say the majority of our loans are Category 1 loans; there are, however, some Category 2 loans. This proposal is extremely burdensome and will cause us to reduce our exposure to residential mortgage lending. It will be very burdensome to go through our loan portfolio and categorize the LTV ratios for loans that have been performing for a number of years. With the new mortgage underwriting rules it is already difficult for many customers to qualify for a mortgage loan under secondary market rules. This rule will effectively block many customers from receiving what will now be classified as Category 2 mortgage loans that community banks have traditionally granted and have done so in a very safe and sound manner.

- **Increase Risk Weights on Delinquent Loans Impacting Our Ability to Work With Our Customers:**

This rule is very pro cyclical. By definition this rule will cause our bank to have significantly less patience to work with our customers experiencing financial difficulty. Historically, we have worked to the best of our ability to accommodate customers that are experiencing historical difficulties. However, if this rule goes into effect, this ability will be impacted negatively by the adverse capital treatment that delinquent loans receive. This willingness to work with customers under financial duress is further exacerbated during periods of economic stress that cause a systemic increase in loan delinquencies. The negative impact will cause not only our institution, but all financial institutions to move more quickly to move delinquent loans off of our books. This will increase foreclosures and economic stress for all financial institution customers and further add to financial institution losses and reputation risk as we deal with these delinquent loans in an expedient manner.

- **General Thoughts:**

I appreciate the concern about bank capital ratios and the feeling that there is a need to do something to increase bank capital levels. This proposal is the wrong approach! It is a highly academic approach that assumes that the makers of the rule can look into the future and accurately risk weight bank assets. In fact, this proposal is a backward looking proposal that looks at the recent financial crisis and adjusts the requirements based upon those circumstances. History shows that the next financial crisis will likely have a completely different set of circumstances and impact financial institutions in a way not anticipated by this rule. This rule will only cause regulatory burden to be significantly increased as community institutions work to make all of the calculations and then pull back in their lending and other financial intermediary activities while they try to understand and adjust to the new impacts of the rule.

There is no substitute for prudent risk management and underwriting. Circumstances will change and the attendant risks present in the economic environment will constantly shift. If the consensus is that there is a need for more regulatory capital – then I urge the regulators to work with the industry and determine what capital levels are needed. Continue to give the individual bank regulators the ability to require additional capital levels at banks with risk profiles that warrant higher levels. The proposed approach currently under discussion is very burdensome,

will curtail the role that banks will play in accommodating economic growth, and will ultimately retard the economic recovery.

In summary, I urge you to scrap this proposal and approach the issue in a more flexible, less burdensome manner. If higher capital levels are deemed to be appropriate, simply raise the capital requirements. Finally, do not burden community banks with the same requirements of the major global money center banks. Generally speaking, the community bank risk profile is much lower than the money center banks. I urge you to have capital standards and regulatory burden levels that reflect the risk profile of the individual bank. This proposal under consideration does not do that in an effective and efficient manner.

Sincerely,

Patrick L. Alexander
President and CEO