FIVE POINTS BANK
OF HASTINGS Member FDIC

August 29, 2012

P. O. Box 55 • Hastings, Nebraska 68902-0055 • (402) 462-2228

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

Dear Ms. Johnson:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

As President of a "well capitalized" $240 million community bank, that operates profitably and with no safety and soundness concerns I am disappointed and a bit angry with the proposed new requirements in Basel III. We operate in a community of 23,000, in South Central Nebraska. Our local economy is stable, having avoided the boom and bust cycle that occurred in many parts of the U.S.. Banks in Nebraska adhere to conservative and logical credit standards. We base our loan decisions on a borrower's ability to repay, not on the possible speculative gains a boom economy may present. Mortgage lending is provided through traditional mortgage products, not on interest only, or ARM loans. We adhere to sound loan to value guidelines, and quite simply, we are a boring bunch.

A significant concern is the extensive reporting requirements that would be required if this proposal is approved. It sure seems counterproductive to require community banks to spend significant time and resources to fill out a schedule that will essentially not result in any changes to our capital adequacy assessment. Simply, this Basel III proposal is huge overkill. It will not prevent a bank failure that occurs due to poor lending decisions, or insider fraud/abuse. Nor will is reduce the risk a collapse in a particular industry or region would create.

One particularly odd aspect of Basel III is the fact the rule will create a heavier risk weighting for a 5-year balloon, residential mortgage, vs. a 30-year fixed rate mortgage. Community banks generally write 5-year balloon payment mortgages for our local residential loan customers if the loan is retained on our books. This is done to alleviate interest rate risk, obviously. A 5-year balloon loan has much less interest rate risk than a 30-year fixed rate loan would, yet it is risk weighted at 100%, vs. a 30-year loan which would be weighted at 50%. I do not understand the logic of this. Essentially, Basel III will further reduce the availability of small dollar, rural, residential lending.

MAIN BRANCH: 2815 Osborne Drive West
DOWNTOWN: 322 North St. Joseph Avenue • SOUTH: 320 South Burlington Avenue

In summary, I believe the costs of reporting information to comply with this rule, will greatly exceed the benefits of the proposal. I anticipate having to add an additional .5 FTE employee to help with reporting demands. There will be significant training issues and costs, and we will be greatly dependent upon our core servicer to be able to adapt to new reporting requirements. We would strongly consider significantly reducing or eliminating small dollar residential lending. If you through Basel III on top of the already onerous compliance burden of Dodd-Frank, I think any logical person would understand why residential lending would be curtailed. The rewards just aren't worth the cost/risk. If small dollar residential lending is reduced, it will have an adverse effect on our local economy.

I also fail to see the logic of the capital "buffer" portion of the rule. How about this? Raise the capital ratio that is required to be considered "well capitalized". Wouldn't that make sense and be easier to understand?

In summary, I do not believe implementation of Basel III will do anything more than stifle economic growth in the U.S. Banks will reduce lending, they will greatly reduce construction and development lending, they will cut back on small dollar residential lending, and profitability will be reduced as banks shorten maturities on their investment portfolios due to the direct implications of interest rate changes on the MV of their investment portfolio. On top of all this is the onerous reporting requirements. Basel III will not prevent the failure of a bank that has a greedy culture or insider abuse. Nor will it reduce the effects the demise of a industry segment would have on the community bank sector. If oil prices plunge to $50 barrel, banks that lend to the oil industry will suffer. If corn drops to $3.00/bushel, ag banks will suffer. Basel III will not prevent these risks in any way, shape or form.

To prevent bank failures, regulators should "know" their banks. Just like bankers are expected to "know" their customers. Regulators should do more onsite work, get to the bank, evaluate management, learn the credit culture, understand the local economy.

I was a National Bank Examiner with the OCC from 1984 through 1999. I experienced the ag crisis of the early 80's. I have served as President of this bank since opening our doors in 2000. In my opinion, a knowledgeable regulator can do more to prevent a bank failure than any new rule can. Let's spend money on making sure there are enough bank examiners, instead of having the industry waste money reporting for some proposed Basel III ruling that will do nothing more than increase the level of capital a bank is required to have on hand.

Sincerely and respectfully,

Terry R. Anstine

Terry R. Anstine, President
Five Points Bank of Hastings