Gothenburg State Bank
Still Pioneering.
www.gothenburgstatebank.com

September 20, 2012

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

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

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").

I am president of a $120 million ag bank located in the center of Nebraska. We are a traditional community bank that cares deeply about our customers and our employees. I would describe our bank as "plain vanilla". We work hard to maintain high marks in safety and soundness, compliance, and the related regulatory requirements. The 28 employees of our bank are committed to helping our community grow. Without our bank providing home loans, agricultural loans, small business loans, and consumer loans to our area, our community would suffer. I am highly concerned about the effects Basel III will have on our ability to continue supporting the economic development opportunities in our area.

My first area of concern has to do with the provision requiring all banks to mark to market their available for sale securities. Our bank has a very conservative investment philosophy. Our bond portfolio totals approximately $27 million and is made up primarily of fully government backed agencies. These investments have little, if any, risk of loss, but are subject to interest rate risk, which we manage very closely. At the present time, during a period of historically low rates, we have a positive market value adjustment in our bond portfolio of $750,000. Shock testing our portfolio indicates that a 400 point increase in interest rates would create over a $4 million change in the market value adjustment and dramatically decrease our capital under Basel III. As of June 30, 2012, our Tier One Capital was 12.3%. We have always believed in maintaining strong capital at our bank. Based on a 400 basis point increase in interest rates, our Tier One Capital would drop slightly below 9%. Even though this may be deemed adequate capital, it is headed the wrong direction and could be cause for further regulatory scrutiny and reduced lending. This adjustment to capital is made even though nothing changed other than the interest rate environment. Over the course of history we have generally held our bonds to maturity.

An additional concern is how capital relates to our legal lending limit. Generally stated, a bank's lending limit goes up and down as capital goes up and down. In smaller banks such as ours, we have many customers who borrow close to our current legal lending limit. Under the scenario explained above, the significant drop in capital of nearly $4 million would have the effect of lowering our legal lending limit by a significant amount. This would leave us vulnerable to losing customers to larger financial institutions and thereby reduce our income and our ability to replenish capital through retained earnings.

My next area of concern addresses the change in capital requirements on mortgage servicing assets. At the present time, our bank does not do mortgage servicing on loans that we sell into the secondary market. However, as we look to the future and additional ways to produce income by more efficiently using our staff, mortgage servicing may be a solution. The Basel III proposal could eliminate this as a potential revenue source for our bank and many other banks.

My next concern deals with the increased risk weighting on delinquent loans. The agricultural economy in our area has been strong for many years; but, I am a product of the 1980's ag crisis. During that time when agricultural lending became tough, our bank, like many, had situations whereby we had to hold loans in past due status for some time. In our bank's case, we minimized our risk of loss by carrying a larger balance in our loan loss reserve. The proposal of increasing the risk weighting on past due loans has the double effect for most banks of decreasing capital while at the same time we are holding large amounts in our loan loss reserve. I feel that managing the loan loss reserve is a more prudent and effective way of handling this situation.

My final concern addressing Basel III is the overall complexity required to interpret and follow the rules. Most of us in small banks don't have staff or computer systems that can generate the granularity needed to report under Basel III. Even if the effect over time of Basel III does not require significant changes in capital it will certainly require additional expense on the part of our bank and the banking industry.

Our ability as a bank to help our economy grow and to support the community of Gothenburg is dependent upon the capital of the bank. We have maintained a high level of capital; thereby giving us the opportunity to help our community grow. Over the past 25 years the overall assessed tax value of the community of Gothenburg has increased from $39 million to $183 million. I am proud of the fact that our bank participated in most of this growth. If our bank is not allowed to continue these activities, our community suffers. This is the story across all of America. This is the unintended consequence of additional regulation. We do not shirk away from the need to have a safe and secure banking system, which means strong capital. I also refuse to turn my back on our community and the other rural communities in our country.

My hope is that you will strongly consider starting over on the accounting requirements for banks. Basel III can have the long term effect of putting a stake in the heart of community banking.

Sincerely,

Matt Williams

Matthew H. Williams
President

MHW/rf