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SAUK CENTRE, MN 56378

Dear Regulator,

The Basel III Capital Proposal would have a dramatic impact on my bank's ability to serve the local community and the future of community banking. This proposed regulation started as an international regulatory approach to govern the largest banks that have international business models and now has trickled all the way down to the smallest community banks in the United States of America. We don't have a problem with additional capital requirements, but trying to put banking in a box is a travesty.

The balloon mortgage loan product makes up a large portion of our loan portfolio and is our safest loan product on our books. This is a self-regulating product for community banks as we have a vested interest in the loan. The new risk weights would severely impact our capital position and we would have to consider not providing this product. The borrowers who utilize the balloon loan product, in most cases, do not qualify on the secondary market. The access to credit for this type of borrower would be extinct and that only hurts the consumer, the housing sector and economic recovery.

The AOCI Common Equity Tier 1 treatment needs to consider the asset and liability side of the balance sheet and take into consideration the impact this would have on community bank's capital positions. Large banks have sophisticated investment criteria and tools to hedge against interest rate risk that the community banking sector does not participate in.

We carry a large investment portfolio and the proposed risk weights on GSE securities and general obligations for states and municipalities needs to be excluded. This would have an immediate negative impact on our bank's capital position and would probably force us to sell our securities portfolio.

The Tier 2 Capital treatment of allowance for loan losses up to 1.25% of risk weighted assets needs to be changed. Why would a bank want to keep more than the proposed 1.25% allowance if it didn't count towards the bank's capital position? This will artificially lower the allowance over time.

There needs to be a tiered regulation framework developed for community banks. I urge you to please reconsider the proposed regulation and work on a tiered regulatory framework. You cannot regulate Bank of America and the First State Bank of Sauk Centre the same way. It just doesn't make sense. Thank you for taking the time to consider my thoughts and observations.

Sincerely,

Scott R. Beuning  
Vice President/Director  
First State Bank of Sauk Centre