Heritage State Bank

9/14/12

Jennifer J, Johnson, Secretary
Board of Governors of the Federal Reserve System
$20^{th}$ 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, MO, 20219

Robert E. Feldman, Executive Secretary
Attention: Comments/ESS
Federal Deposit Insurance Corporation
550 $17^{th}$ Street, N.W.
Washington, DC 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.

I must admit, that I am nearly overwhelmed. I've been a community banker for thirty years and President of our existing bank for nearly that long. We've acquired three failed institutions and taken the time, energy and capital to correct and restore those banks to viable community businesses. Now, the Basel III proposal enacts such restrictions and accounting requirements on our $120 million dollar bank that I fear it will not be practical for us to continue, or at least compete and grow. I am quite concerned about the proposal's impact on community banks like ours, and I am adamantly opposed to the measure.

Specifically, the Trust Preferred restrictions have taken a very valuable tool from banks for capital access. I'm unaware of how that resource will be replaced, especially on a long term, manageable level. This proposal tightens or increases capital requirements while restricting a very viable resource for that funding.

The mortgage lending requirements might be understandable for a lender that packages, sells, or trades those loans as a commodity - where universal underwriting standards are needed. But, my bank sells no credits. We keep our loans in-house, and are willing to take the risk and fund the reserve if those loans might fail. As mentioned, historically that is how our bank has grown and prospered. Restricting our style of lending via higher capital requirements for these loans, even as performing credits, severely increases their cost or the rates we must assess our customers, as well as dramatically restricts our latitude to mold a loan for a customer to fit the borrower's needs. This portion of the proposal will dramatically limit the amount and types of credit we offer to our patrons.

Finally, the accounting, analysis and documentation for every aspect of the proposal - mortgages, investments, delinquent loans etc., is far too complex and detailed for what our staff or even the accounting firm our bank retains is capable of managing and maintaining on a daily basis. The expense for doing so will be extraordinary! I'm also convinced that the requirements as proposed are well beyond what our regulators can monitor. I fear that ours and most banks like ours will fall well behind on this aspect, the required accounting alone.

To summarize, community banks of our size and type that don't package mortgages or get involved in non-conventional lending or complex investments must be exempted from the proposal. Otherwise, we'll be forced to curtail even our current types of investments and loans, increase the rate we charge on the loans we do grant, severely restrict the style and types of those loans, shrinking our assets in the process to maintain the required capital level. We'll also be forced to react much more quickly to struggling credits with more decisive measures that unfortunately won't include restructuring with relaxed or more workable terms for our borrowers.

Thank you for allowing me to express my concerns, I urge you to give the detrimental ramifications of this proposal deep consideration.

Sincerely,

Rob Barrett, President
Heritage State Bank