FIRST SECURITY BANK

A Full Service Bank Since 1882

October 15, 2012

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20^{th} Street and Constitution Avenue, NW
Washington, DC 20551

Office of the Comptroller of the Currency
250 E St., SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman, Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17^{th} St., NW
Washington, DC 20429

Re: OCC - Basel III Docket ID OCC-2012-0008, Docket ID OCC-2012-0009
FRB - Basel III Docket No R-1430; RIN No 7100-AD87, Docket No R-1442; RIN No 7100-D87
FDIC-Basel III RIN 3064-AD95, RIN 3064-AD96

Dear Regulators:

Thank you for the opportunity to comment on the Basel III proposals.

First, I would like to describe First Security Bank. We are a locally owned community bank, with 32 local shareholders, located in central Illinois, approximately twenty five miles southeast of Peoria, Illinois. The bank has four offices located in Danvers, Deer Creek, and two in Mackinaw: one being the main office. All four communities are very small with populations ranging from 500 to 2500. The bank has assets of approximately $75 million and has twenty three employees. We were chartered in 1907; however the bank also took over the original bank which dated to 1882. Mackinaw Valley Financial Services, Inc, our holding company, is regulated by the Federal Reserve System and the bank is regulated by the State of Illinois and the FDIC.

We serve the small towns where our offices are located; along with other small communities and rural areas in central Illinois. We consider ourselves an agriculture bank, but we also have many small businesses, and consumers that work in or around our small towns. Many of our customers

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Deer Creek Banking Center • 201 E. First St. • Deer Creek, Illinois 61733 • 309/447-6868 • FAX 309/447-6806
Danvers Banking Center • 116 E. Exchange St. • Danvers, Illinois 61732 • 309/963-4071 • FAX 309/963-4061
Website: www.fsb1.com

also commute to Bloomington, Morton or Peoria for work. We are very proud of the relationships we have developed with our local school districts and municipalities.

I have been in banking for almost 32 years and have never written a comment letter concerning a regulatory proposal. However, I felt it important to write with regard to the Basel III proposals due to its over-burdensome regulations, which will negatively affect our bank as well as all community banks.

Our bank has never been involved in sub-prime mortgage loans, derivative securities, credit cards, or high loan to value residential mortgages. We also do not offer non-FDIC insured deposit products. It seems inappropriate to paint all banks with one brush. Small banks were not involved in the other risky activities that created the recent problems in our industry.

We would urge the regulators to exempt financial institutions under $10 billion from this over-reaching and burdensome regulation.

We are especially concerned with two aspects of the Basel III proposals and will address those below.

Balloon Real Estate Loans

Our bank, like probably most community banks, has issued five year balloon residential real estate loans with a 15 to 25 year amortization. We do sell to the secondary market, but some customers do not fit into the guidelines and therefore we keep them in-house. We believe this is important for our community. Many of these are also for apartments, duplexes and other rental units.

We do not offer, nor do customers desire, long term deposits. Accordingly, it would obviously create much greater interest rate risk to make long term fixed rate mortgage loans. Borrowers who have maintained good payment histories have always been offered extensions/modifications at balloon maturities. We have incurred very few losses on these residential real estate loans over the past several years. They certainly are less risky than auto, credit card and other consumer loans.

Thus, we feel it is not appropriate to risk-weight these loans at 150%, as they represent little or no risk of loss. The current 50% risk rating seems appropriate.

Also, as these loans pay down, it makes little sense to maintain the risk weight at that level. As the loan to value decreases the loan obviously is less of a risk.

This change to the risk rating will necessarily lead to a tightening of credit for home mortgages, at a time when the housing industry is still in deep trouble.

We calculated that our bank's "total risk based capital ratio" will be reduced by approximately 300 basis points. For the quarter ending September 2012 it would be at 14.61. If this calculation were in place at this time it would drop to approximately 11.89.

This change does nothing to make the bank safer or help local communities and borrowers.

Security Appreciation/Depreciation

The second issue we have is in the area of "mark to market" accounting. We utilize our bond portfolio for liquidity. Securities are used to securitize local public deposits. This change could cause large swings in capital even though these losses or gains will in all likelihood never be realized.

The bank does nothing to create volatility in the valuation of the securities portfolio and this volatility does not effect the operation of the bank or our ability to serve our customers. Under current rules volatility in the community bank investment portfolio does not affect a bank's ability to operate (even though based on market value accounting capital declines) and for this reason alone security appreciation or depreciation should not be considered in calculating capital ratios. A change such as this will force banks to purchase very short term, low yielding securities to avoid market fluctuations - at exactly the time when bank profitability is under pressure and regulatory scrutiny! And, it could force a bank to raise unnecessary capital exactly at a time when new capital would be expensive – again damaging the profitability of the bank.

Again, we appreciate this opportunity to comment on the proposed regulation and hope that the regulators see fit to exempt community banks under $10 billion from the Basel III regulations.

If anyone on the staff has questions or needs further clarification of my comments please contact me at (309)359-3961, the bank address listed below or my e-mail address gjacobs@fsb1.com.

Sincerely,

M. Gary Jacobs

M. Gary Jacobs
President / CEO