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October 19, 2012

Basel III Proposed Regulatory Capital Rules
Comment Letter

OCC

Via E-mail: regs.comments@occ.treas.gov
Subject Line: Basel III OCC Docket ID OCC-2012-0008, 0009 and 0010

Federal Reserve Board

Via E-Mail: regs.comments@federalreserve.gov
Subject Line: Basel III Docket No. R-1442

FDIC

Via E-Mail: comments@FDIC.gov
Subject Line: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96 and RIN 3064-D-97

RE: Basel III Capital Rules

Ladies and Gentlemen:

I submit the following comments for your review and consideration before finalizing the proposed Basel III regulatory capital rules. I feel they present very serious concerns for our country and in particular community banking. My first recommendation would be to put this decision on hold and take more time to work through some of the items that propose concerns for community bankers like me.

Our bank has assets of approximately $200 million and our primary location is Bolivar, Missouri. We have additional branches in Bolivar, Fair Grove and Springfield. We employ 75 people and you will find that we contribute in both time and money to many of the causes and events that take place in the communities we serve. We make all types of loans in these communities. Our loan portfolio totals approximately $154 million and we will generate approximately $35 million in residential loans this year that we sell on the secondary market. In addition, since we are located in some rural areas we initiate loans that we must keep on our books with an internal ARM product and balloon loans. In our area we do generate mobile home loans that are combined with real estate that in 99% of the cases must be kept in our loan portfolio.

I am going to address the primary concerns that I have regarding the new capital proposals. Hopefully my comments will help you make a more informed decision regarding this matter.

I will start first with a question and that is have these proposed changes been back-tested with banks that were doing business in the 1980's, when the interest rates were very high? A primary concern I heard mentioned was that a bank's investment portfolio could incur significant losses in a rising rate environment and cause a significant decrease in capital under the proposed Basel III requirements. This would not be that hard to back-test based on information that could be obtained from old bank information back in that time frame. This is just one component of Basel III but could cause a significant hit against capital. The response to this situation will limit a bank's options to generate earnings, manage interest rate risk and its liquidity by selling and buying AFS securities.

Contrary to the Collins amendment in the Dodd-Frank Act that grandfathers Trust Preferred Securities (TPS) for banks between $500 million and $15 billion in assets, the Basel III proposal requires the complete phase-out of TPS. This capital will have to be replaced or the bank must shrink. Banks of our size have limited resources for raising capital as opposed to larger banks and those that are publicly traded. This would no doubt affect the lending capacity of community banks.

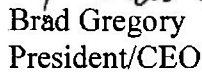
The proposed "capital conservation buffer" is unreasonable because a bank either meets the capital requirements or it does not. Credit risks are factored into the loan loss reserve and this appears to be a duplication. Currently, banking regulators have supervisory authority to impose restrictions on any bank or to require additional capital based on a bank's risk profile.

I think one of the greatest problems with this proposal is the handling of residential mortgage risk weighting. In our environment we make several in-house residential loans due to the fact they can't qualify on the secondary market due to financial underwriting requirements or appraisal requirements. Let me give you a recent example that occurred with our bank. We had two young individuals purchasing a home that required a 50% loan based on the purchase price of $126,000. They just graduated from school, had NO DEBT, owned their two cars and just obtained jobs working in two local school districts. They could not obtain a loan on the secondary market because they did not have a credit score. We knew the individuals because they went to school with my son and daughters and they are outstanding young people trying to be a part of our community. We made an in-house loan and will work to get them a credit score to one day transfer this to the secondary market. Until that time we made them a loan with a three year balloon but will allow them to pay early without any penalty. Under the current proposal this would go from a risk weight of 35% to 100% because it is considered a "risky" Category 2 Mortgage.

There are other issues I could discuss but these I have mentioned are some primary concerns I have at our bank. The changes as proposed would have significant

repercussions on community banks and their ability to lend in the communities they serve. These rules were meant for the larger banking organizations; why not confine them to the larger institutions as they were intended? The United States is blessed with more than 7,000 community banks and commercial banks. Let's increase this number and not put in place burdensome requirements that will no doubt cause this number to decrease.

Sincerely,



Brad Gregory
President/CEO

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Senator Claire McCaskill, US Senate, 506 Hart Senate Office Building, Washington, DC 20510-2505
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