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October 10, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th St and Constitution Ave NW
Washington, D.C. 20551

Dear Ms. Johnson:

Our family has owned a small community bank with about one hundred million dollars in assets with three locations in outstate Minnesota for 30 years. Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment.

I am very concerned for the future of our organization if you proceed with the Basel III regulations as proposed! While I have many concerns about the proposal, my major concerns are as follows:

- The proposal does not exempt small community banks with simplified balance sheets and lending activities.
- In addition to implementing a new minimum capital requirement, the proposal completely revises many of the current risk weights that a community bank like mine uses to calculate regulatory capital, particularly for mortgages and the prompt correction action regulations.
- Community banks cannot access the capital markets and normally can only build capital through retained earnings.
- Current interest rate environment limits bank's ability to build profits as our margins are compressed.
- We portfolio first and second mortgage loans on residential properties which provide a viable funding source to consumers in our market area. If this proposal is approved, we will likely be forced to stop all residential real estate lending.
- Community banks will be forced to hold additional capital to compensate for increased volatility.
- Allowance for loan losses inclusion in total capital should not be capped at 1.25% of assets.

The future of community banking and my bank will be impacted by your decision on this important matter! Please consider the ramifications to our industry before proceeding with Basel III.

Sincerely,

Steven J. Huston
CEO/President