October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors-Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

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

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

RE: Basel III Capital Proposals

Dear Ladies and Gentleman:

This letter is written in response to the request for comment issued by the federal banking agencies. Thank you for the opportunity to provide perspective from those of us in the community banking industry on this very important issue.

I am the president and CEO of a $260 million community bank headquartered in southeast Missouri with three Missouri branches and two branches in rural Illinois. Our bank was established in 1902, is family owned and operated and employs 70 people. Our balance sheet is primarily funded by local deposits, 90% of which are loaned to local consumers, farmers and businesses. Our bank is vital to the communities we serve for economic growth. The success of our communities is vital to the growth and success of our bank. Simply put, we thrive together or stagnant together. I have deep concerns that the Basel III proposals will be detrimental to our bank and our communities for a number of specific reasons.

First, we maintain ownership of 100% of the loans we make, therefore we must successfully manage the interest rate risk and credit risk associated with them. A big part of managing interest rate risk involves making five year balloon real estate loans with 20 year amortization periods, many of which are home loans. These loans are underwritten with the intent to renew them after each five year period. The sole purpose is to *reduce* risk to the bank. As such, we believe the proposal is misguided by increasing risk weights for balloon mortgages when, in fact, they reduce risk to the bank.

Second, about three percent of the loans we make are second mortgage loans. These loans are of high credit quality and should not carry a higher risk weighting simply because they are secured by second lien positions. We maintain the first lien on the majority of these loans and could simply combine the two loans into one to avoid the increased weighting but doing so would not change our risk.

Main Facility	Lending Center	Bell City Facility	Dexter Banking Center	Lerna Banking Center	Bowen Banking Center
105 East Gabriel	205 South Ash	25201 Walnut	1428 Business Hwy. 60 W	506 Main St.	415 W 5th St.
P.O. Box 400	P.O. Box 400	P.O. Box 163	P.O. Box 829	P.O. Box 99	P.O. Box 215
Advance, MO 63730-0400	Advance, MO 63730-0400	Bell City, MO 63735-0163	Dexter, MO 63841-0829	Lerna, IL 62440	Bowen, IL 62316
573-722-3517	573-722-3518	573-733-4341	573-624-1500	217-234-9200	217-842-5234
Fax: 573-722-3527	Fax: 573-722-2500	Fax: 573-733-4252	Fax: 573-624-3909	Fax: 217-234-7125	Fax: 217-842-5232

Third, the systems necessary to identify loans with the various risk weightings being proposed are not presently in place and will greatly increase costs to obtain such a complex system without providing any offsetting benefit. Software programming would be necessary adding unnecessary costs that would ultimately increase the cost of credit to our borrowers.

Fourth, nonperforming loans should not carry higher risk weights. We thoroughly evaluate the adequacy of our allowance for loan losses each quarter. In doing so, we effectively account for the potential loss in our nonperforming loans by maintaining an adequate balance in the allowance for loan loss account. This negates any justification for increasing the risk weights of these loans.

Fifth, our bank traditionally invests over 15% of its assets in various securities issued by various U.S. agencies, local school districts and municipalities which totaled about $47.2 million with a $2.1 million unrealized gain (accumulated other comprehensive income-AOCI) as of 6/30/12. No other balance sheet category is marked to market, only securities. The proposal would include the $2.1 million AOCI as regulatory capital. This proposal fails to recognize the effects of interest rate changes on other balance sheet accounts. Either all balance sheet accounts should be carried at fair value and the corresponding gain/loss in capital or none should. Furthermore, we hold all of the securities we purchase until they mature, just like we do the loans we make. The effect that changing interest rates will have on the value of securities should not be included in capital. Community banks are going concerns and should not be revalued each time interest rates change, especially when only one select asset category is marked to fair value.

Sixth, the proposed capital conservation buffer of 2.5% effectively increases the minimum requirements by 2.5%. There is no justification for this number. Why not 1% or 3% or 5%? Banking has risks, community bankers and federal banking regulatory agencies must deal with it accordingly and acknowledge that capital is the buffer, capital does not need a buffer.

Lastly, this proposal is so complex and lengthy, I was not able to allocate the time and resources necessary to adequately address all of the concerns our bank has with it. I am in disbelief at the volume and magnitude of existing, new and proposed regulations that we are required to manage, taking away valuable time and resources from productive activities. The cumulative effect of this proposal along with the recent deluge of regulations on community banks may be the straw that breaks the camel's back. I strongly urge you to substantially change the proposal or completely withdraw it. The value of the community banking industry is hugely important to the economy of the United States and submitting international capital guidelines to an industry that is unique to our country is bad policy.

Sincerely,

Harold M. Miles
President & CEO
Bank of Advance