

October 22, 2012

Robert E. Feldman, Executive Secretary  
Attn: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Jennifer J. Johnson, Secretary  
Board of Governors  
Federal Reserve System  
20 St. and Constitution Ave  
Washington, DC 20551

RE: BASEL III Proposal

Dear Mr. Feldman –

I have reviewed the various terms of the new BASEL III proposal and have determined that it would have a severe negative impact on the future of both The Tri-County Bank and the entire community banking industry. It's very clear that this "One Size Fits All" approach to capital further restricts the remaining free market system the community banking industry struggles to maintain. The only way to uphold the integrity of the system is to exempt banks under \$50 billion in assets from this legislation.

Research indicates that only 3-4% of Nebraska banks would not be well capitalized under this proposal. However, the fact is that BASEL III creates an environment that forces community banks to increase their liquidity risk, meet loan demand with increased asset quality risk, and limits our community banking family from meeting the home mortgage financing needs that directly and positively impact our local economies. In addition, it creates substantial short-term capital fluctuations that most community banks do not have the technical resources to manage from a risk/reward standpoint.

For example, our bank holds securities in the "Available for Sale" category in an effort to remain flexible in case of a liquidity crunch. An up 300bp interest rate environment would affect our capital substantially. We would have to initiate a practice of keeping the securities in "Held to Maturity" in order to off-set the negative capital impact the new standards include. We have historically included AFS securities into our liquidity plan in an effort minimize our liquidity risk. This proposal rewards us for unsafe liquidity practices.

Another example is the ability to offer balloon mortgages and our capacity to retain servicing rights within FHLBank's MPF program. I cannot think of any other products we offer, or value-added service we provide, that have had a more positive impact on our local economic development efforts. These mortgage products and services have been a great way to profitably serve our designated trade area and this threat jeopardizes our

bank's ability to continue to sustain our "Outstanding" CRA rating. The reality is that many local community banks have gotten out of the home mortgage market due to Dodd-Frank. This legislation is the final "Nail in the Coffin" for rural home mortgage lending.

I do not believe the original intent of BASEL III was to threaten community banking or limit its capacity to serve rural America. However, it is clear that it does both. We believe in strong capital standards, managed risk and serving our communities. Please understand this legislation does not support this critical core mission of community banking. Thank you.

Sincerely,

Jon D. Schmaderer  
President and CEO