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October 19, 2012

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

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

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

I would like to thank you for the opportunity to comment on the proposed capital rules. These rules have implications throughout the banking industry, but are especially onerous for community banks like Denison State Bank.

In terms of investments that banks hold, in my estimation it will be more difficult under Basel III Capital Proposals. Currently, all of our securities are available for sale and that gives maximum flexibility in what we might want or need to do, even though in reality most of our securities have gone to maturity. If we have to transfer some of our securities to a "held-to-maturity" account this would reduce overall liquidity and limit flexibility in managing the investment portfolio. At our last examination, we received a very fine exam but there was concern in the liquidity area so I hate to see something happen that would further take away from the liquidity we now have.

In a community bank we try to make every loan possible to people in our community, while realizing that they must fit into bank policy for the most part. Occasionally, even though we would rather not make some small loans, we do so in order to be accommodating and help people. Again I am talking about loans that are relatively small denominations of $5,000.00 or less. Under Basel III if we are to allocate different amounts of capital to different kinds of loans, it may be that in many cases banks will not make loans that really need to be made in a smaller community, simply because the capital will be drawn on more. In other words, it will take more capital to make those kind of loans. I think it is a sad situation if we choose not to make that loan because it will encumber more capital. Is that good for our community or our country, particularly when we are trying to make as many loans as prudently and reasonably possible?

Cumbersome Measurement and Reporting – The level of detail required in order to calculate the proposed capital measures is far beyond the systems in most community banks. For example, our bank has over 800 residential real estate loans, all of which have to be classified as Category 1 or 2 and stratified by LTV. None of this information is currently in our systems, and getting up to standard will require a massive project of manual entry. This is an extremely cumbersome drain on time, attention, and resources at a time when banks are already facing increased regulations and declining margins related to record low interest rates.

The events of the last several years certainly give credence to the need for improved capital standards. However, the cumbersome and onerous standards of Basel III were designed for large, complex, and international banks. Applying these same standards to community banks like Denison State Bank will have wide ranging (and largely unknown consequences). We understand the need for higher levels of core capital, and are willing to comply with such standards, but believe smaller banks can get there without the Basel III standards that are generally not appropriate nor applicable.

There may be a need for Basel III for larger banks. However, for community banks of $500,000,000.00 (or for smaller community banks that are under that number and particularly $100,000,000.00 or $50,000,000.00) this just does not make sense. I have worked in smaller banks and I call on smaller banks, and I know how much we are regulated today in so many ways. I really feel that we can use our time better for our bank and for our community than going through Basel III requirements.

Sincerely,

Jim

James Birkbeck
CEO & Chairman of the Board

JB:bgs