



# Union State Bank

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VIA EMAIL

[Regs.comments@federalreserve.gov](mailto:Regs.comments@federalreserve.gov)

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

In re: BASEL III AND COMMUNITY BANKS

This communication is to provide comments on the impact of Basel III on community banks. We appreciate the chance to voice our opinion on this proposed legislation and hope that our comments will be considered when decisions are made.

We are very concerned about the impact this legislation will have on community and rural banks across the United States. It appears to us that a "one size fits all" thought process is being used when considering this legislation. Our understanding is that Basel III applies to all banks from less than \$100 million rural and community banks to large multi-national banking conglomerates. It is our belief that the current state of affairs is not due to small, independent community banks that base their business on relationship lending and community involvement, much like any small business; but rather is due large "too big to fail" institutions that seem at times to operate under their own set of rules. At the risk of sounding alarmist, we believe applying Basel III to all banks will most possibly result in the consolidation and eventual demise of community banks as we know them. Just like small businesses, small banks are the lenders, employers, charitable contributors and supporters of the towns they are located in. They (small businesses and banks) are the commercial and social life blood of communities everywhere. And this is why we're so concerned:

1. Our historically low interest rates will someday go up. Banks that exceed current regulatory capital requirements could quickly lose that position in a rapidly rising interest rate environment with the inclusion of accumulated other comprehensive income. This would be compounded by the fact that community banks don't have the ability to raise capital like large publically owned institutions.
2. Severe changes in residential mortgage risk weights, the inclusion of AOCI, and new requirements for common equity capital plus new conservation buffers would further erode a bank's capital position. Showing an inflated capital ratio at historically low interest rates could degrade into a perilously low capital ratio with a large jump in interest rates. Again, community banks do not have

the experience or the access to rate swaps, options and futures contracts that very large, sophisticated institutions do to offset this.

3. Bank liquidity will be adversely affected by including AOCI. Banks will be forced into other investments with fewer options in an attempt to supplement their incomes. Our belief is that capital and liquidity go hand in hand in a properly managed balance sheet.
4. Finally, it doesn't make common sense. Why would we want to penalize the organizations responsible for keeping Main Street open for business? You can be assured that the large multi-national banks won't be standing in line to finance these communities.

After 111 years of continuous service to our community through two world wars, the Great Depression, the Great Recession and everything in between, we implore you to give careful consideration to exempting banks below a certain level to avoid what we believe would be another financial crisis and a disaster for Main Street America.

Respectfully submitted,

UNION STATE BANK



Daniel L. Heeren  
President and Chief Executive Officer

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