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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

Office of the Comptroller of the
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, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Recognizing that this capital proposal represents one of the most important regulatory initiatives in recent years, it is critical that its effect on community banks is taken into account with extreme caution. As currently proposed, we at First Minnesota Bank believe the effect of the proposals will alter our business model, resulting in adverse consequences impacting our ability to serve our community and customers with the financial services and products that they have come to depend on in their daily lives.

First, the plan does not take into account the diverse universe of banks serving this Country's financial needs. Specifically, the proposal treats a multi-billion dollar organization the same as small community bank serving smaller communities throughout this Nation. And, as your own data supports, small community banks maintain capital levels far in excess of the larger multi-billion organizations.

There are three specific areas of the proposal that are especially troubling for First Minnesota Bank.

First, the inclusion of accumulated other comprehensive income in capital will result in increased volatility in our regulatory capital balances and will likely have an adverse impact on our regulatory capital under certain economic conditions. With the current low interest rate environment, we believe the accumulated comprehensive income on our available for sale investment portfolio is not representative of our core capital position, and neither do we believe in an increasing interest rate environment that a negative comprehensive income position detracts from our core capital position. Adding this volatility to a community bank's core capital position will further stress a bank's ability to serve its community's financial needs.

Second, changing the methodology for assessing risk weighted assets will not only be a burden on a community bank in the form of investing significant recourses to upgrade computer systems, but will also create ongoing operational cost to track mortgage loan to value ratios. Another major consideration is the additional capital requirements for certain products such as balloon payments in residential mortgages. Forcing banks to place higher reserves on such products are likely to have the adverse consequent such as community banks originating full term 15 or 30 year mortgages with durations that will make their balance sheets more sensitive to changes in long-term interest rates.

Finally, we object to the proposed ten year phase-out of the tier one treatment of certain capital instruments such as trust preferred securities (TRUPS). TRUPS have become a reliable source of core capital for community banks that have proven to be an effective tool in the overall capital planning for community banks. We are unaware of any situation where the presence of TRUPS in a community bank have created regulatory concern or problems, particularly where the level of TRUPS has been regulated and a cap of total amount permissible has been instituted.

In closing, we believe community banks should be permitted to continue using the current BASEL 1 framework for computing their capital requirements. Initially, Basel III was designed to apply to the largest, internationally active banks and NOT community banks. These large banks operate under a very different model and focus less on customer relationships that are the hallmark of community banking. This difference in banking models demonstrates the need to place higher capital standards on the Nation's largest banks, and continue with the more reasonable approach on the smaller community banks.

Very Truly Yours,

Lowell Wakefield
Chairman of the Board