

From: Bank of Newman Grove, Jeff Gerhart
Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules
Subject: Regs H & Y Regulatory Capital Proposals

Comments:

To: Federal Reserve System

Re: Basel III - proposal for community banks

The Bank of Newman Grove is a \$36,000,000 agricultural bank in Northeast Nebraska that has been serving our community since 1891. Newman Grove is an agricultural community with a population of 800 and serves the surrounding trade area.

Our loans are to local main street businesses (mom & pop shops), consumers and agricultural loans (crop production, machinery, land, livestock, 4-H calves & hogs) to our farmers. Over time we have been regulated out of the residential real estate market so we do not make residential real estate loans and therefore are not able to serve our community in that regard.

I am very concerned about the Basel III Interagency Risk-Based Capital Proposals and how they will impact my bank and other community banks across the country.

As of June 30, 2012 my available for sale portion of my bond portfolio had a gain of \$xxxx. If interest rates would increase by 300 basis points my bond portfolio will show a paper loss of \$xxxxxx. This will then have to be subtracted from my bank equity of \$xxxxxxx leaving me with capital of \$xxxxxxx.

Understand that I do not sell bonds that are in my bond portfolio - I keep them to maturity.

My bank will go from capital at 9.1% to 6.3%.

Not only will my capital shrink by over 30%. In addition I will have to lower my lending limit and retain fewer loans on my books and this will reduce my income which is already strained from very low interest rates. Lower earnings do not allow me to add as much to my capital that will make my bank stronger.

Community banks need to be exempt from the Basel III proposal.

I appreciate the opportunity to let you know how my bank will be negatively impacted should this proposal move forward.

Jeffrey L Gerhart
Bank of Newman Grove