

From: First State Bank, John Engelbert
Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules
Subject: Regs H & Y Regulatory Capital Proposals

Comments:

I am the president of a \$300 million community bank in northwest Kansas. The bank was chartered in 1902 and serves four rural communities in Kansas, all with populations of less than 3,000. The bank is primarily owned by a local farming family.

Please be advised that our bank opposes the Basel III regulations as proposed. Our primary opposition to the proposed regulation is including Unrealized Gains/Losses in the new capital calculations. Our bank has a large volume of securities in relation to loan volume due to weak loan demand. If Basel III requires Unrealized Gains/Losses in our investment portfolio to be included in capital calculations, we would be forced to move all investments to the Held to Maturity category (they are all currently held as Available for Sale). When interest rates increase, we will likely be subject to significant unrealized losses which would result in capital levels not satisfactory under the proposed Basel III guidelines. Although moving the investments to Held to Maturity addresses Basel III, it may severely restrict the bank's liquidity. If we do not want to restrict our liquidity, we would be forced to leave the securities as Available for sale. As noted, this would jeopardize our Basel III capital position. We are currently a well-capitalized bank, but Basel III will likely result in our bank being deemed as undercapitalized. An under-capitalized bank will not be able to adequately meet the financial needs of its community and thus ultimately this proposed regulation will be a major detriment to rural communities and main street America. The bottom line is Basel III will likely result in either a capital issue or a liquidity issue, either of which may jeopardize the viability of the bank. Please scrap Basel III for all community banks. Community banks, and more importantly main street America, should not be penalized with another regulation that was drafted for Wall Street institutions.

Thank you for letting me comment on this proposed regulation.

John P. Engelbert
First State Bank