



Main Facility:

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October 28, 2003

Chief Counsel's Office, Regulation Comments
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
Attention: Docket #2003-27

Dear Sir or Madam,

As you are aware, the proposal for the Basel II Accord (internal model for determining capital requirements) has a comment period that ends on November 3, 2003.

It is critical that community banks are not forced to adopt the Basel II Accord as proposed. Community banks must be allowed to 'opt in' to this new proposal. The New Accord is trying to more closely link minimum capital requirements with an institution's risk profile. Community banks must retain the option to leverage their capital, regardless of the complexity of the calculations to prove their risk-worthiness. Small institutions will be at a competitive disadvantage to the extent that they cannot deploy capital as efficiently as larger, more sophisticated institutions.

Enclosed is a revised 'risk-based capital formula' being proposed by McHenry Savings Bank. This formula takes into consideration loan-to-value ratios and collateral values, most of which can be obtained through third party appraisal services or published listings such as Black Book. This proposed formula is provided to open up dialogue on potential revisions. I believe that it more accurately reflects the true risk of assets on our balance sheets.

If capital requirements are changed and new options are developed, institutions should be allowed to choose between developing their own internal risk rating systems, or maintaining a modified risk based system with expanded categories to enable a more appropriate quantification of asset risk.

Sincerely,

Brian F. Bara

Brian F. Bara, Vice President
McHenry Savings Bank

Attachment

Downtown:
1209 N. Green St.
McHenry, Illinois
60050

Richmond:
Route 173 & Main St.
Richmond, Illinois
60071

Johnsburg:
4000 N. Johnsburg Rd.
McHenry, Illinois
60050

Huntley:
10390 Route 47
Huntley, Illinois
60142

PROPOSED RISK-BASED CAPITAL FORMULA
(* INDICATES NEW CATEGORY)

0% Risk Weight Category

- Cash on Hand
- U.S. Treasuries
- * Interest-Earning Deposits (CD's) \leq \$100,000

20% Risk Weight Category

- Cash Items
- Correspondent Banks
- Fed Funds Sold
- FHLB Stock
- General Obligation Municipal Investments
- Loans Secured By Deposits
- Money Market Fund Investments
- Municipal Loans
- U.S. Agencies
- U.S. Agency-Issued MBS's
- * Interest-Earning Deposits (CD's) $>$ \$100,000
- * 1-4 Family First Mortgages with LTV Ratio \leq 60%
- * HE Loans & HELOC's (Including 1st Mtg) with LTV Ratio \leq 60%
- * Commercial Mortgages with LTV Ratio \leq 20%
- * Consumer Loans with LTV Ratio \leq 25%
- * Bank Land & Premises - 50% of Appraisal Value

40% Risk Weight Category

- * 1-4 Family First Mortgages with LTV Ratio $>$ 60% and \leq 75%
- * HE Loans & HELOC's (Including 1st Mtg) with LTV Ratio $>$ 60% and \leq 75%
- * Commercial Mortgages with LTV Ratio \leq 40%

50% Risk Weight Category

- Other Qualifying Junior Liens
- Private-Issue MBS's
- Qualifying Construction Loans
- Revenue Bond Municipal Investments
- * 1-4 Family First Mortgages with LTV Ratio $>$ 75%
- * HE Loans & HELOC's (Including 1st Mtg) with LTV Ratio $>$ 75%
- * Commercial Mortgages with LTV Ratio \leq 50%
- * Consumer Loans with LTV Ratio $>$ 25% and \leq 60%
- * Commercial Loans with LTV Ratio \leq 40%

60% Risk Weight Category

- * Commercial Mortgages with LTV Ratio \leq 60%

80% Risk Weight Category

- * Commercial Mortgages with LTV Ratio \leq 80%

100% Risk Weight Category

- Allowance for Loan & Lease Losses
- Corporate Bond Investments
- Loans Past Due 90+ Days
- All Other Assets
- * Commercial Mortgages with LTV Ratio $>$ 80%
- * Consumer Loans with LTV Ratio $>$ 60%
- * Commercial Loans with LTV Ratio $>$ 40%
- * Bank Land & Premises - 50% of Appraisal Value
- * Unsecured Loans

Off-Balance Sheet Items (20% Risk Weight)

- Letters of Credit (Cash Collateral)
- Letters of Credit (Other Collateral)

Total Adjusted Assets