Bank of Commerce

September 24, 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 comment 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.

I work for Bank of Commerce in Chelsea, OK. The bank was founded in 1896 and has always strived to serve the communities loan needs, particularly their home financing needs. Today, the bank has a total of six locations and employs 50 individuals and has over $140MM in assets, the majority of which is loans. During our 115 years, we have maintained sufficient capital for our operations and have always exceeded the regulatory capital requirements and plan to always do so. However, the Basel III Capital Proposals threaten all of these items, due to the increased and vague capital requirements and the risk weightings associated with the proposal. I have outlined and described my concerns on the following pages and how the proposals will affect Bank of Commerce and our 115-year heritage.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Chelsea • P.O. Box 29 • Chelsea, OK 74016 • (918) 789-2567 • Fax (918) 789-3798
Sequoyah • 15995 S. Hwy. 66 • Claremore, OK 74017 • (918) 343-2567 • Fax (918) 343-3798
Adair • P.O. Box 199 • Adair, OK 74330 • (918) 785-2446 • Fax (918) 628-5170
Catoosa • P.O. Box 1890 • Catoosa, OK 74015 • (918) 266-2567 • Fax (918) 266-6637
Tulsa • 6655 S. Lewis, Suite 150 • Tulsa, OK 74136 • (918) 270-2567 • Fax (918) 665-7417
Claremore • 1124 W. Will Rogers • Claremore, OK 74017 • (918) 342-4913 • Fax (918) 342-8165

Applicability of Basel III to Community Banks

First and foremost, is the question of "Should Community Banks be required to calculate their capital under Basel III?". In short the answer is NO. Community banks, like Bank of Commerce, should be allowed to continue using the current Basel I framework for computing our capital requirements. Basel III was designed to apply to the largest, internationally active, banks and not community banks. Community banks did not engage in the highly leveraged activities that severely depleted the capital levels of the largest banks.

Bank of Commerce operate on a relationship-based business model that is specifically designed to serve customers in our communities on a long-term basis. This contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The largest banks operate purely on transaction volume and pay little attention to the customer relationship. This difference in banking models should demonstrate that Community banks do not need the tougher capital standards that were designed with larger banks in mind.

Incorporating AOCI as Part of Regulatory Capital

Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks, including mine, represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. Additionally, demand for many implicitly and explicitly government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. This increased demand has caused credit spreads to tighten further increasing bond valuations. Interest rates have fallen to levels that are unsustainable long-term once an economic recovery accelerates. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital, as the unrealized losses will reduce capital balances. At my bank, for instance, if interest rates increased by 300 basis points, my bank's bond portfolio would show a paper loss of -$2,260,311. This would mean that my bank's tier one ratio would drop by 1.72%.

Large financial institutions have the ability to mitigate the risks of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes with the use of interest rate derivatives like interest rate swap, option, and futures contracts. Community banks, like mine, do not have the knowledge or expertise to engage in these transactions and manage their associated risks, costs, and barriers to entry. Community banks should continue to exclude AOCI from capital measures, as we are currently required to do today.

Capital Conservation Buffers

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal. Many community banks will need to build additional capital balances to meet the minimum capital requirements with the buffers in place.

Community banks, mine included, do not have ready access to capital that the larger banks have through the capital markets. The prevalent way for us to increase capital is through the accumulation of retained earnings over time. Due to the current ultra low interest rate environment, community bank profitability has diminished further hampering their ability to grow capital. If the regulators are unwilling to exempt community banks from the capital conservation buffers, additional time should be allotted (at least five years beyond 2019) in order for those banks that need the additional capital to retain and accumulate earnings accordingly.

New Risk Weights

The proposed risk weight framework under Basel III is too complicated and will be a regulatory burden that will penalize community banks and jeopardize the housing recovery. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks that offer these loan products to their customers and will deprive customers of many financing options for residential property. Additionally, higher risk weights for balloon loans will further penalize community banks for mitigating interest rate risk in their asset-liability management. Community banks will be forced to originate only 15 or 30 year mortgages with durations that will make their balance sheets more sensitive to changes in long-term interest rates. Many community banks will either exit the residential loan market entirely or only originate those loans that can be sold to a GSE. Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans. Furthermore, community banks will be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages.

Proposed Phase-out of Trust Preferred Securities

We object to the proposed ten-year phase-out of the tier one treatment of instruments like trust preferred securities (TRUPS) because it is reliable source of capital for community banks that would be very difficult to replace. We believe it was the intent of the Collins amendment of the Dodd-Frank Act to permanently grandfather tier one treatment of TRUPS issued by bank holding companies between $500 million and $15 billion. Phasing out this important source of capital would be a particular burden for many privately-held banks and bank holding companies that are facing greatly reduced alternatives in raising capital.

While we applaud the fact that TRUPS issued by bank holding companies under $500 million, like ours, would not be impacted by the proposal, consistent with the Collins Amendment, we urge the banking regulators to continue the current tier one treatment of TRUPS issued by those bank holding companies with consolidated assets between $500 million and $15 billion in assets.

Subchapter S Community Banks

Imposing distribution prohibitions on community banks with a Subchapter S corporate structure conflicts with the requirement that shareholders pay income taxes on earned income. Those banks with a Subchapter S capital structure would need to be exempt from the capital conservation buffers to ensure that their shareholders do not violate the provisions of the Internal Revenue Code. We recommend that the capital conservation buffers be suspended during those periods where the bank generates taxable income for the shareholder.

Thank you for taking the time to consider my comments above, I urge you to consider my concerns and the concerns of my fellow bankers, and pass legislation exempting Community banks from the burdensome and harmful affects of the Basel III Proposals.

Sincerely,

Randy Ross
Executive Vice President
Bank of Commerce
Adair, OK 74330

Citizens
State Bank
P.O. Box 518, Somerville, Texas 77879

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Docket No. R-1430; RIN No. 7100-AD87
Docket No. R-1442; RIN No. 7100-AD87
Delivered via email: regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E. Street, S.W., Mail Stop 2-3
Washington, D.C. 20219
Docket ID OCC-2012-008
Docket ID OCC-2012-0009
Delivered via email: regs.comments@occ.treas.gov

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
FDIC RIN 3064-AD95
FDIC RIN 3064-AD96
Delivered via email: comments@FDIC.gov

RE: Basel III Capital Proposals

Dear Sir or Madam:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

Bank Background
Our bank is a community bank in Central Texas with assets just under $400 million with six locations. The populations of the area we serve are 2,000 (our headquarters), 300, 4,000, 400, 15,000 and 7,000 (branch locations). The communities and the people we touch in these areas are very much affected by the decisions we make on loan requests, involvement of our staff of around 100 people in area wide organizations and contributions we make on an annual basis. Without our bank and what we bring to this area, the economy in our trade territory would suffer. I am very concerned that if Basel III is implemented, we will not have the ability to continue to support the economic development in our area to the level we have.

Mark to Market
My first concern has to do with the provision requiring all banks to mark to market their available-for-sale securities. Our bank has a very conservative investment philosophy. We have a portfolio of $96 million that is primarily made up of treasuries, agencies and mortgage backed securities. These investments have little, if any, risk or loss but do have an interest rate risk which we watch closely. CSB has a positive market value adjustment of $1.5 million during this period of low rates. Shock testing our portfolio by 400 points would change our capital by $6 million and drop our Tier 1 (as of 9/30/12) from 9.32% to approximately 7.75% and could cause our bank to not be able to pay salary bonuses or dividends; all of this, just because of an interest rate swing. Our bank historically holds our investments to maturity. This Basel III calculation could have huge negative impacts on our capital from this "market" adjustment and cause bankers to change their philosophy from available-for-sale to held-to-maturity and add liquidity risk not now present.

Although our bank has a lower internal lending limit than our legal limit, a $6 million swing in capital with the 400 basis point shock would change our legal limit $1.5 million and could cause community banks like ours to lose loans to the large financial institutions and reduce our income and ability to grow capital through retained earnings.

Secondary Market Guarantee
CSB does not currently sell mortgages in the secondary market but we have considered this as an additional source of income. Basel III's proposal to change capital requirements by requiring a guarantee on a portion of the loan could eliminate this as a potential source of revenue for us and other community banks.

Balloon Loans
Our loan portfolio is approximately 60% real estate secured. We hold all of our loans in our portfolio except overlines which we participate with other community banks in our area. A very high percentage of these real estate loans are "balloon" loans, approximately 75%+. This is the common structure of these loans in our region. This balloon allows us to not lock in the rate for an extended term which could put the bank in an interest rate bind. Basel III will require a doubling of capital requirements on balloon loans. This will impose a capital hardship on the community banks and require us to change to other

styles of loans with longer term fixed rates that will impose more interest rate risk on the lender.

Delinquent Loans
Increasing risk weights on delinquent loans is a redundant means of raising capital. Delinquent loans are considered in the ALLL analysis and is an area looked at closely by the regulators. This capital calculation appears to be a duplication and unnecessary addition for community banks.

Complexity
One of the major issues the community banks have to deal with is the complexity of Basel III. We have spent a great deal of time and money on technology. In our best estimation, we will have to add at least one full time person and additional software or outsource much of this capital tracking. All of this at a time when regulations are extensive and time and personnel costs are growing. There is no way to know the full impact Basel III would have on our bank because of training and assigning new risk weights to all of our loans. This is a massive task for banks our size and smaller.

Summary
It is my belief that our bank, as well as other community banks all across America, are key components of each community they serve. Their earnings and capital allow them to grow and lend money in their markets that allow businesses to grow and people to prosper. Just as these banks have the ability to take risks by lending and expanding activity, too much regulation, or restrictive regulation, will cause a tightening of lending. This will continue to slow the economic growth and restrict earnings and capital growth. Community bankers are not opposed to increasing capital to keep our banking industry safe but the regulators are doing a good job of monitoring this. Requiring the level of complex capital management that Basel III is establishing will cause undue costs and administration for community banks.

There may be a need for Basel III with the large complex banks but not for community banks. Not all banks fit the same regulatory mold. The implementation of Basel III as proposed would significantly alter the way community banks serve their customers and communities and is not what the banking industry or our American economy need at this time. Thank you for your time and consideration to change or remove this proposal.

Sincerely,

Frances A. Maler

Frances A. Maler
Vice President

cc: Senator Kay Bailey Hutchison
Senator John Cornyn
Congressman Michael McCaul
Christopher L. Williston, IBAT
Eric Sandberg, TBA

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September 13, 2012

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

Re: Basel III Capital Proposals

Dear Madam:

Thank you for the opportunity to provide comment 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.

I am deeply concerned with the affect the Basel III proposals will have on community banks like mine. Basel III was never intended to apply to small banks, which were not the cause of the current financial crisis. This proposal goes well beyond regulatory overreach. There is no doubt that these arbitrary and burdensome requirements will further suppress economic growth, and will likely cause many banks in small towns across the country to sell, consolidate, or be acquired. Options available to individuals and small businesses for obtaining loans and other critical banking services will be reduced - services which are critical to sustained economic expansion.

Main street banks will be particularly damaged by this proposal, at a time when businesses of all types are already struggling. How is the banking industry supposed to aid businesses when we are being strangled by the never-ending list of new regulations, most of which provide no benefit to our customers whatsoever?

The sheer volume and complexity of the current regulatory environment is smothering the ability of community banks to survive. Regulatory change of the past few years has already produced negative results on banks' earnings, and thereby their capital levels. While large banks may have the resources to better withstand this onslaught, that is not the case with community banks.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements;* and *Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Web: www.TheBankForMe.com
Email: AskMyBanker@TheBankForMe.com
New Mexico: 505.327.3222
Colorado: 970.565.2779

The proposed change to include mark-to-market valuations of available for sale securities in regulatory capital will create extreme fluctuations in many banks' capital requirements, based solely on speculative events that, in most cases, will never occur. As a result, many banks will likely no longer be able to utilize their portfolios to maintain acceptable liquidity positions. For those that do retain the available for sale categorization, the resulting capital requirements will further damage banks' ability to stimulate the economy by tying up funds that could be loaned out to the community. Community banks' lending limits will also be adversely affected by these potential wild swings in capital requirements.

Also, increasing the risk weighting on certain categories of loans is piling on unnecessary additional requirements with no substantial justification. Banks like mine have always maintained more than adequate balances in the ALLL, based on sound, rational analysis. This method has proved, in the vast majority of banks, to be sufficient.

While our bank does not service loans for others, the proposed changes in requirements on mortgage servicing assets discourages another business opportunity for banks that may wish to engage in loan servicing, to replace fee income stripped by other regulations such as those affecting overdrafts and interchange income.

These restrictive capital requirements should not be implemented in any form. Individual banks that warrant additional capital levels should be reviewed on a case-by-case basis, based upon specific conditions that exist at that individual bank. Any attempt to apply this one-size-fits-all proposal to the banking industry will be disastrous for the economy and further erode the ability of banks to serve our customers and thereby improve our economy. Is this the intention of this proposal? I certainly hope not.

These unintended consequences will do nothing to turnaround a struggling economy. This proposed regulation will do much more harm than good, and I sincerely hope that you will listen to the comments that are coming from community banks like mine. There is no doubt that nothing positive will come to the banking industry from this proposal.

Sincerely,

Frank Macaluso

Frank Macaluso
Chairman of the Board
Four Corners Community Bank

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October 19, 2012

Ben Bernanke Thomas J. Curry
Chairman Comptroller
Federal Reserve Board of Governors Office of the Comptroller of the Currency
20th and C. Street, NW 250 E. Street, SW
Washington, DC 20551 Washington, DC 20219
Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Basel III Docket ID: OCC-2012-0008, 0009, and 0010;
Basel III Docket No. R-1442;
Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Dear Comptroller Curry, Chairman Bernanke and Acting Chairman Gruenberg:

I am writing today on behalf of Comanche National Bank, a community bank that was chartered in 1889. Comanche National serves a rural Central Texas customer base heavily weighted with low to moderate income individuals. I have been an employee of Comanche National Bank for 33 years and have witnessed through the years how much our customers depend on us for their home loans, automobile loans and small business loans. These are folks that do not meet the underwriting criteria to quality for funding from FNMA, FHLMC, Ally, SBA, CITI Bank, or any other government agency. They depend on their community bank.

I am very concerned regarding the Basel III Notice of Proposed Regulations released June 7, 2012. These rules, if they are imposed upon the traditional community banks of Texas will do untold harm to our banks, their customers and their communities. They will also lead to the rapid consolidation of the banking industry, leaving opportunities for deposit and credit products in the hands of a handful of institutions. Small communities and small businesses will suffer as a result.

I recognize the need for strong capital requirements, and an assessment of our institution and most Texas institutions will show you that we are well capitalized, and in many instances extremely well capitalized. I object, however, to a number of the Basel III proposal that will increase compliance costs and lessen the availability of credit in the name of harmonizing international capital standards. Large, complex international institutions deserve additional scrutiny and additional capital requirements in the aftermath of the latest economic crisis.

P.O. Box 191 | 100 East Central | Comanche, TX 76442
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Texas banks, which were not involved in the activities that caused the Great Recession, should not be made to pay for the sins of others.

The Mark to Market of Available for Sale Securities (AFS) for Common Equity Tier 1 (CET1)

Community banks are not involved in securities trading. The proposal will require community banks to change their Tier 1 capital as a result of interest rate movements as opposed to changes in credit risk. How will small banks comply with this requirement? Most likely they will have to purchase software and train employees on how to monitor capital changes. They will also have to set up a separate capital buffer to handle fluctuations in the prices of debt instruments. All of these will increase costs to small banks, which will curtail profitability and the availability of credit.

New Risk Weightings for Traditional/Riskier Mortgages

Existing federal law and recent regulatory behavior have resulted in fewer mortgages being offered by Texas community banks. Many rural banks have stopped offering mortgages altogether. This is even before the definition of "Qualified Mortgage" is promulgated by the Consumer Financial Protection Bureau. The Basel III proposal requires that mortgages will have to be reassessed after modifications. Private mortgage insurance is not recognized. Banks will have to reexamine all existing mortgages to assess their category for risk weighting. If a bank wants to remain in the mortgage business, they will have to raise capital. Many more banks will stop making mortgages. Many communities in Texas will lose access to mortgage credit. It is worth noting that in the last crisis Texas banks were not involved in the origination and securitization of toxic mortgages. Our existing regulatory regime did just fine and can continue to do so in the future.

High Volatility Commercial Real Estate

The risk weighting on many construction loans will increase to 150% from 100%. Although banks in some states, mainly as the result of the housing bubble, got into trouble due to construction loans, increasing the capital requirements for construction loans for well-regulated institutions is not the answer. Increased capital will only ensure that a number of loans will not be made, adversely affecting well-run banks and their local economies. Existing CRE requirements and adequate supervision have worked well for Texas banks.

Mortgage Servicing Asset Limits in CET1

Many smaller thrifts and banks in Texas provide mortgage credit and mortgage servicing for their communities. The proposal to limit servicing assets when combined with increased risk weighting for mortgages will force many smaller institutions out of business. This will drive borrowers to large, multistate mortgage lenders that are often not located in rural areas.

Regulatory Burden

The cumulative effect of the Basel III proposal will require community banks to collect new and often granular information in order to calculate risk weights, determine daily capital formulations and obtain details involving construction loans. Regulatory burden and the costs associated with it have increased ten-fold over the last eight years. The full impact of the Dodd-Frank Act regarding regulatory costs will not be felt for several years. Basel III will be one more factor to lessen the profitability of community banks and cause further consolidation in the industry.

Credit Unions

It is my understanding that credit unions will not be subject to the proposed Basel III capital requirements. Credit unions are federally insured entities that can do anything a bank can. They are currently petitioning Congress to expand their commercial lending powers. It is especially galling to community bankers to have to compete with these institutions because they pay no federal taxes. Basel III will give one more competitive advantage to credit unions.

In closing let me concur with the Conference of State Bank Supervisors who believe that the issues the federal agencies are trying to address are best managed through risk management and the supervisory process, not through the adoption of Basel III as proposed.

Sincerely,

Janice Moore

Janice Moore, VP
First National Bank of Santo,
a Division of Comanche National Bank

October 12, 2012

VIA ELECTRONIC DELIVERY
Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.,
Washington, DC 20551
regs.comments@federalreserve.gov
Docket No. R-1442 and RIN No. 7100-AD87

RE: Regulatory Capital Rules: (1) Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Correction Act; and (2) Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements: Docket No. R-1442 and RIN No. 7100-AD87

Dear Ms. Johnson:

The Bank of New Glarus is a $200 million community institution in New Glarus, Wisconsin. As a community banker with the Bank of New Glarus, I am gravely concerned over the broad approach taken by the Board of Governors of the Federal Reserve System (FRB), together with Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC), (collectively, the Agencies) to impose a "one-size-fits-all" regulatory capital scheme despite the fact that the industry believed the Basel III proposals were intended for the very large, complex international institutions.

Respectfully, I believe this approach excessively tightens regulatory capital requirements on community banks which is unwarranted, beyond Congressional intent in many respects, and will likely cause a disruption in available credit in our marketplace.

I wish to remind the Agencies that, in addition to the proposed Basel III rules, there are currently at least ten major mortgage related rulemakings in various stages of development (HOEPA, MLO compensation, TILA/RESPA integration, two appraisal rules, ability-to-repay, risk retention, escrow requirements, and mortgage servicing rules under both TILA and RESPA). This, in turn, builds upon at least seven major final rulemakings in the previous 36 months (RESPA reform, HPML requirements, two MDIA implementation rules, appraisal reforms, appraisal guidelines, and MLO compensation).

I am very much concerned about the cumulative burden these rules will have on my institution. It is vitally important that the proposed regulatory capital rules be analyzed together in the context of other rulemakings and regulatory reforms—and be prospective in approach. The Agencies must not create capital requirements that are based upon occurrences in the past, under a different regulatory environment, and without consideration of other rulemakings and reforms.

For these reasons and for the concerns outlined below, the Agencies must withdraw the proposed regulatory capital rules, conduct additional study and analysis, and only propose capital rules which take into consideration the impact other regulatory proposals and reforms will have on risk. The Agencies must recognize that there are many differences between community banks and large, complex international institutions—and must, therefore, not force a community bank into the same capital calculation "peg-hole" as a sophisticated international institution.

The Agencies must recognize that there are many differences between community banks and large, complex international institutions—and must, therefore, not force a community bank into the same capital calculation "peg-hole" as a complex international institution.

I appreciate the opportunity to comment on the Agencies' proposals.

Sincerely,

Karen Dunwiddie

Karen Dunwiddie
Personal Banker/CSR

New Century
BANK

October 15, 2012

Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Docket ID OCC-2012-0008, -0009 & -0010

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket No. 1442

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@FDIC.gov
RIN 3064-AD95, -AD96 & -AD97

Re: Regulatory Capital Rules:

Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

Dear Sirs:

Thank you for the opportunity to comment on the joint notices of proposed rulemaking ("NPRs") referenced above and intended to implement agreements reached by the Basel Committee on Banking Supervision in *Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems*, December 2010 ("Basel III Accord"), consistent with provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

I serve as a member of the management team of New Century Bank, a wholly owned subsidiary of New Century Bancorp, Inc. New Century is a community bank with seven offices in eastern North Carolina and approximately $580 million in total assets.

Costs of Compliance

As you are well aware, Basel III is an international framework intended for systemically important institutions that compete on a global scale. Its forced application to the community bank sector will result in disproportionate costs of compliance for smaller institutions. The issue is not simply one of increased cost of compliance, but whether the typical community bank has the management resources and time to comply with the 700 pages of new regulations in the NPR at all. Most community banks lack the management resources and systems to comply.

Institutions with less than $5 billion in total assets should be exempted from the proposed regulations.

Available for Sale Securities Portfolio

The Basel III NPR proposes to reflect unrealized gains and losses on available for sale ("AFS") securities in regulatory capital. This approach would be better if unrealized losses on AFS were always due purely to the credit rating of the issuer, but the value of AFS are also impacted to a large degree by interest rates. This proposed capital recognition would, therefore, be impacted to a large degree by temporary impairments resulting from fluctuations in market interest rates.

Given the current historically low interest rate environment, it is fair to assume that rates will rise significantly at some point in the future. When this occurs, virtually every bank in the county will experience a reduction in regulatory capital that is not truly linked to their respective risk profiles. Most community banks in this position would be forced to shrink their balance sheets just at the time that economic recovery is hitting its full stride or increase their capital levels to cover unrealized losses that would never be recognized if those securities were held to their maturity.

One obvious solution to the capital volatility problem that would be created by this new rule would be to reclassify the securities portfolio as held to maturity. This would address the problem of capital volatility; however, it would also severely curtail the utility of the securities portfolio as a tool to manage interest rate risk. Ultimately, this too would have an adverse effect on safety and soundness.

We suggest a carve out from the proposed rule that exempts unrealized gains and losses that predominately result from changes in interest rate risk. The Agencies should also consider filtering unrealized gains and losses for securities that do not have a credit risk, namely securities that come within the definition of "Type I Securities" under 12 CFR Part 1.2(j).

Risk Weightings

The NPR would require the collection and reporting of information on numerous asset categories and the assignment of updated, ongoing risk weightings in real time. The increased capital levels that the proposed risk weightings require, not to mention the added cost and burden of compliance with these provisions, will only make it harder for community banks to compete.

If financial institutions are adequately addressing the risk for delinquent loans through allowance for loan and lease losses, then adding a risk weight of 150% should not be necessary. We suggest that this provision be revised to require financial institutions to adequately address this risk through allowances for loan and lease losses, and not by increasing the risk weight of delinquent loans. This provision, as proposed in the NPR, amounts to a credit sensitive, after the fact penalty. The better, and more transparent, approach would be to adequately address troubled credits through reserve loss settings.

Home Equity Lending

The NPRs would require that all junior liens secured by 1-to-4 family residential real estate be classified as Category 2 exposures with risk weights ranging from 100% to 200%. In addition, a bank that holds two or more mortgages on the same property would be required to treat all the mortgages on the property as Category 2 exposures, even a first lien mortgage.

While there is a proposed exception if (i) a bank holds both the first and junior lien on the same property; (ii) no party holds an intervening lien; and (iii) the combined exposure meets all requirements of a Category 1 mortgage, we suggest a broader exception that would apply where a bank holds two or more mortgages on the same property and the first lien is a Category 1 exposure.

Mortgage Servicing

Under the NPR, mortgage servicing assets in excess of 10% of common equity tier 1 will no longer be counted at Tier 1 capital. Further, financial institutions would be required to hold capital against assets with credit enhancing representations and warranties, including mortgages in the process of being securitized. This will clearly have an adverse effect not only on community banks, but also on the availability of residential mortgage loans to consumers. It will likely also push the origination of mortgage products out into under-regulated origination channels where consumers are less protected.

Existing mortgage servicing assets should be grandfathered and the Agencies should allow banks to include 100% of the fair market value of readily marketable mortgage servicing assets to reduce the impact of the proposed rule. In addition, there should be no deduction from capital for mortgage servicing rights.

Trust Preferred Securities

The Dodd-Frank Act explicitly preserves the capital treatment for outstanding trust preferred securities issued by smaller bank holding companies like New Century. The phase out proposed in the NPR appears very clearly to be contradictory to Congressional intent in the Dodd-Frank Act, which clearly states that bank holding companies with assets of less than $15 billion as of December 31, 2009 will be permitted to continue to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital.

The proposed phase-out would have a disproportionately adverse, if not punitive, effect on our community bank and hundreds others like it, because smaller institutions simply do not have the access to the capital markets that regional, super-regional and global institutions enjoy.

Most community banks will struggle to replace this capital due to their small market capitalization levels.

Furthermore, since these securities are already outstanding (in New Century's case, issued nearly six years before the Dodd-Frank Act was enacted by Congress), it is unclear what supervisory purpose the disqualification of qualifying capital that is on the balance sheet and available to absorb losses could possibly serve.

This element of the NPR should be removed.

Capital Conservation Buffer

The NPRs would require a bank to maintain a "capital conservation buffer" of additional common equity Tier 1 capital equal to 2.5% of risk weighted assets in order to avoid restrictions, or outright prohibitions, on capital distributions and discretionary bonus payments to executive officers.

This provision will cripple the ability of community banks to compete with larger market competitors by making it more difficult to recruit and retain personnel. It will also adversely affect the return on equity (ROE) of banks, which will in turn make it even more difficult for community banks to attract investors and access the capital markets.

There are already regulatory provisions in place that restrict the payment of dividends, the repurchase of securities, and the payment of bonuses under prompt corrective action and the Agencies already have a full complement of regulatory tools at their disposal to regulate distributions and bonuses when needed, ranging from board resolutions, memoranda of understanding, written agreements, consent orders and orders to cease and desist.

If a financial institution is "well capitalized" under applicable regulatory standards, then it should not be required to hold additional capital in order to pay dividends or bonuses. Excessive risk taking within multinational investment banks may have been a major contributing factor leading to the financial crisis, but excessive risk taking and excessive compensation within community banks was not. While all can agree that the financial services industry is, and should be, highly regulated, it is also still a for-profit business. Banks should not have to apologize if they play by the rules and realize a profit and they should not be required to hold additional capital in order to distribute a portion of that profit to investors and employees.

The proposed "capital conservation buffer" should be not be included in the final rules.

Conclusion

The application of the proposed rules described in this letter would severely undermine the ability of our community bank to compete with larger competitors. Basel III was intended to provide a framework for institutions that compete internationally. Our bank and hundreds just like us compete in small communities and do not have the same risk profiles and access to capital as these large institutions. We should not be subject to identical standards.

We believe that this proposed regulation threatens the continued viability of community banks in the United States. If the intent of this regulation is to drive consolidation and eliminate small banks from the competitive landscape, it will have its intended effect. If, however, the Agencies are interested in the continued ability of community banks to provide financial products and services to consumers and small businesses, many of whom are underbanked by regional, super-regional, and global institutions, then we urge the Agencies to revise the NPRs, if not abandon them altogether.

Thank you for your time and attention. New Century Bank appreciates the opportunity to provide these comments for your consideration.

Sincerely,

William L. Hedgepeth II

William L. Hedgepeth, II
President and CEO
New Century Bank and New Century Bancorp

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October 11, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 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, NW
Washington, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment 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.

Applicability of Basel III to Community Banks

Community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. Basel III was designed to apply to the largest, internationally active banks and not community banks. Community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. Community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The largest banks operate purely on transaction volume and pay little attention to the customer relationship. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage the ability to absorb losses.

Incorporating AOCI as Part of Regulatory Capital

Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI, for our bank and most community banks, represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. Additionally, demand for many implicitly and explicitly government guaranteed

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

766 Shrewsbury Avenue, Tinton Falls, NJ 07724
732.389.8722 • fax: 732.345-0614
www.tworiverbank.com

securities has risen due to a flight to safety and government intervention in the capital markets. This increased demand has caused credit spreads to tighten further increasing bond valuations.
Interest rates have fallen to levels that are unsustainable long-term once an economic recovery accelerates. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. Under the proposed rules, this decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At our bank, for instance, if interest rates increased by 300 basis points, my bank's bond portfolio would show a paper loss of $5.2 million. This would mean that our bank's tier 1 ratio would drop by 80 basis points.

Large financial institutions have the ability to mitigate the risks of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes with the use of interest rate derivatives like interest rate swap, option, and futures contracts. Community banks, such as ours, do not have the knowledge or expertise to engage in these transactions and manage their associated risks, costs, and barriers to entry. Allowing unrealized gains and losses on available for sale securities to flow through to regulatory capital would bring interest rate risk into the regulatory capital standards, greatly increase the volatility of community banks' capital ratios, and undermine prudent risk management. As such, we feel strongly that community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

Capital Conservation Buffers

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal and therefore should not be implemented. Many community banks will need to build additional capital balances to meet the minimum capital requirements with the buffers in place. Community banks do not have ready access to capital that the larger banks have through the capital markets. The only true way for community banks to increase capital is through the accumulation of retained earnings over time. Due to the longevity of this exceptional low interest rate environment, our profitability has come under pressure further hampering our ability to grow capital. If the regulators are unwilling to exempt community banks from the capital conservation buffers, additional time should be allotted (at least five years beyond 2019) in order for those banks that need the additional capital to retain and accumulate earnings accordingly.

New Risk Weights for 1-4 Family Residential Mortgages:

The proposed risk weight framework under Basel III is too complicated and will be an onerous regulatory burden that will penalize community banks and jeopardize the housing recovery. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Additionally, higher risk weights for balloon loans will further penalize community banks for mitigating interest rate risk in their asset-liability management. Community banks will be forced to originate only 15 or 30 year mortgages with durations that will make their balance sheets more sensitive to changes in long-term interest rates. Many community banks will either exit the residential loan market entirely or only originate those loans that can be sold to a GSE. Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans. Furthermore, community banks will be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages.

New Risk Weights for Past Due Assets:

This rule is a disincentive to the conservative approach of placing a loan on nonaccrual if there is a slight chance of loss. We believe that placing loans on nonaccrual is good practice and fear that this rule may cause banks to extend loans and avoid placing loans on nonaccrual for the wrong reasons. Additionally, in our ASC 310 impairment analysis, any loan past due 90 days or more which has a shortfall in collateral or collection value is already accounted for accordingly in our allowance for loan losses. Like many community banks, we are diligent in performing impairment analysis and updating our allowance calculation on a monthly basis.

In summary, I would recommend you consider exempting banks with assets under $50 billion from the rule. If it is implemented, retain the current treatment for unrealized gains and losses on available for sale debt and equity securities. Additionally, rules pertaining to the risk weights for 1-4 family residential mortgage and past due assets should be reconsidered.

Thank you for your consideration of these comments.

Sincerely,

Antha J. Stephens
Senior Vice President, Operations Officer

October 15, 2012

Bank Midwest

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W. Washington, D.C. 20551
Delivered via email: regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Delivered via email: regs.comments@occ.treas.gove

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429
Delivered via email: comments@FDIC.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I currently serve as a Class A Director at the Federal Reserve Bank of Chicago and am the Chairman of the Iowa Bankers Association. I am proud to serve as a member of the board of directors of Bank Midwest – a $685 million community bank headquartered in Spirit Lake, Iowa. As the CEO, I am accountable to our customers, my coworkers, and the communities in which we operate. Our shareholders are patient and realize without the other three, our company would have little value. Our bankers make business, agricultural and consumer loans, collect deposits and our professionally licensed team offer wealth management and insurance services and product to our customers from 10 offices located throughout northwest Iowa and southwest Minnesota. Our brand statement is "Great Experience-One Place" and we take those words very seriously.

I understand the Basel III goal of strengthening the financial system by increasing the level and quality of capital that banks are required to hold, however, these rules are more appropriate for large complex financial institutions than for the relatively simple business practices of small banks. Let me take this opportunity to say that it was not the community banks that brought about the financial crisis of 2008. While some large banks and mortgage companies were selling and securitizing loans of questionable value, Bank Midwest was steadily making sound mortgage loans to our local customers. During the years of 2008, 2009 and 2010, the worst three years of the crisis, our bank originated over $32 million in residential mortgage loans that we held in our portfolio. The actual loss experience on these loans was less that 0.19% per year. In addition, we originated another $73 million in residential mortgage loans with similar underwriting characteristics that were subsequently sold to Fannie Mae. So, like most community banks throughout the U.S., our institution functioned as a source of stability by originating and delivering high-quality assets to the financial system during a very volatile period.

Further evidence of our role in providing stability has been the bank's increasing capital ratios since the end of 2008. Bank Midwest's total tier 1 risk-based capital ratio has climbed from 10.07% as of December 31, 2008 to 12.17% as of June 30, 2012. This increase in capital came during a period of asset growth, and it came without the benefit of a capital raise. Please do not interpret any of this as braggadocio; I am simply making the point that this type of performance is typical of most community banks.

As to some of the specific portions of the Basel III rules, I have some areas of concern:

1. **Requirements that gains and losses on available for sale securities must flow through to regulatory capital.** This rule will have the undesirable and unnecessary affect of adding volatility to a bank's capital position. The investment portfolio at Bank Midwest is approximately $165 million representing 25% of total assets. We estimate that a 300 basis point rise in interest rates would translate into a decline in the market value of the

portfolio of nearly $14 million. Such a move would reduce the bank's tier 1 capital ratio by more than 2 percentage points. This new rule does not take into consideration a bank's overall sensitivity to interest rate

movements and therefore cannot provide any insight into a firm's level of interest rate risk. As for credit risk taken in the investment portfolio, the existing rules for other-than-temporarily-impaired (OTTI) investments provide a mechanism for potential credit losses to be reflected in capital. Most banks use the investment portfolio as a source of liquidity and to manage interest rate risk. A natural response to the new regulation will be for banks to hold fewer securities or to reclassify existing portfolio assets as held-to-maturity (HTM). How can it be in the best interest of the financial system to ratify a rule which provides no improvement in measuring a bank's ability to sustain losses and at the same time would reduce liquidity system-wide?

2. **Increased risk weighting on delinquent loans.**
The agricultural economy in our area has been strong for many years; but we also remember the 1980's agricultural crisis. During that time when agricultural lending became tough, our bank, like many, had situations where we had to hold loans in past due status for some time. In our bank's case, we minimized our risk of loss by carrying a larger balance in our loan loss reserve. The proposal of increasing the risk weighting on past due loans has the double effect for most banks of decreasing capital while at the same time we are holding large amounts in our loan loss reserve. Managing the loan loss reserve would seem to be a more prudent and effective way of handling the situation.

3. **Elimination of Trust Preferred Securities.**
Our bank secured $10 million in Trust Preferred Securities in 2004 and planned to use them in our capital mix through their maturity in 2034. The Federal Regulators decision to eliminate Trust Preferred Securities from Tier 1 capital will have many unintended consequences for companies like ours. We forward locked in a rate on our Trust Preferred Securities so that our cost of capital would not exceed our historical averages and we are comfortable with the loss position at this time (we have a large off setting gain in our subsidiary bank's investment portfolio). While the forward SWAP rates are higher than current short rates, our goal was to protect against higher rates in the future. However, as Basel III has now been introduced, the suggested changes would start to erode our ability to use this as Tier 1 capital, and we will have to make other decisions that will not impact our overall capital in a positive way which will restrict our ability to grow our balance sheet over the next ten years. There seems to be a conflict with a monetary policy being as accommodative as possible and then this restrictive rule which will undermine and work against community banks making more loans to move this economy forward. Consideration should be given to looking at phasing out the Trust Preferred Securities over some period of time at the end of the instruments life, as opposed to some random date that imposes a phase out sooner than need be.

Basel III, as proposed, will continue to add unneeded complexity and will continue to add to the further consolidation of the community bank sector as bankers get more and more frustrated with compliance activities versus making good loans. I urge you to ask others to reconsider this final rule, who it applies to, and what long term implications it will leave in its wake. In so doing, you will help us to better serve our customers and strengthen our local economy.

Thank you for your support and attention to this matter.

Sincerely,

Stephen J. Goodenow

Stephen J. Goodenow, Chairman and CEO
Bank Midwest

Cc: Senator, Charles Grassley
Senator, Tom Harkin
Representative, Steve King

Lincoln County Bancorp, Inc.

P.O. Box G
Troy, MO 63379
(636) 528-7001
Fax: (636) 528-1924

Independent Community Banks

October 12, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 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 Proposed Rule Making

Ladies and Gentlemen:

Thank you for the opportunity to provide comment 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.

There are concerns with the use of a capital conservation buffer as an additional defense against risk and volatility. This buffer would be in addition to proposed adequately capitalized measures, but it is still subject to agencies supervisory authority and can be adjusted if deemed necessary. The restrictions that are available for the regulatory bodies to use are also troublesome and could result in the inability of banks to raise additional capital in times when it would be most crucial and also to retain talented employees during difficult times. The conservation buffer adds further uncertainty and complexity to an already complex capital measurement system.

Over the course of the last several years, we have seen record highs and record lows when it comes to determining value on anything, but no other area has hit harder than real estate. By adding the requirement that risk weightings be based on loan to value measures, it creates speculation and volatility. It has the potential to penalize banks over short term value swings and doesn't take into

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

account any payment ability on behalf of the borrower. The last few years alone have shown us how much loan to value measurements can fluctuate, so to exacerbate the situation by requiring risk weighting of loan to value measurements without regard to borrower position or ability seems foolish. Also requiring risk weight categories of greater than 100% on certain assets will greatly restrict lending and penalize organization's that are already in a stressed position. Implementation of the rules on existing portfolios will also prove burdensome and difficult to administer, requiring additional staffing and costs, potentially increase the stress on an organization. The overall complexity and subjective nature of the loan to value risk weighting and the overall difficulty to administer would have an adverse effect on lending within communities and restrict the capital structure of an organization.

The use of Accumulated Other Comprehensive Income as part of regulatory capital would increase volatility and short term benefits and crises in a capital structure. While BASEL III appears to try to focus on retaining core capital elements as part of the capital structure, it would seem contrary to include as part of the core measure something that is prone to quick and short term fluctuation. This could result in an unnecessary strain on an organization's capital structure by increasing market fluctuations not associated with core capital elements. This alone is extremely harmful to the long term planning and viability of an organization, but it is similarly problematic to those entities that receive funding from banks, such as local, state, and even federal agencies simply because banks would be more cautious of the types of agencies they purchase securities from due to possible interest rate fluctuations.

Although there are several other proposed rule making guidelines outlined in the BASEL III documents, these are the ones that I think pose the greatest risk to the banking industry. While I am not opposed to higher standard capital requirements for banks to mitigate losses and risk, they should reduce the complexity in implementation. We are all aware that one of the issues that helped to create the recession we've just experienced was the complexity in the mortgage industry and in regulation in general. However, the proposed standards that I have listed above appear more subjective in nature and less straight forward, which would add even more stress, complexity, and volatility to capital structures.

I want to again thank you for the time spent reading all of these comments. I only hope that they make a difference in the future rule making as it relates to the banking industry.

Sincerely,

C. Robert (Bob) Hall

C. Robert (Bob) Hall
Director
Lincoln County Bancorp, Inc.

FIRST WESTERN
BANK

October 12, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Delivered via email regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Delivered via email regs.comments@occ.treas.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429
Delivered via email comments@FDIC.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals 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.

While I am supportive of the regulatory agencies' efforts to improve capital standards internationally and for systemic institutions, I have significant concerns about the current proposals as they relate to community banks. Basel III was designed to apply to the largest, internationally active banks and not community banks. Community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. Community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense

Regional Headquarters:
80 W. Main Street · Booneville, AR 72927
479-675-3000 · FAX 479-675-4477

MEMBER FDIC
www.firstwesternbank.net

Regional Headquarters:
401 W. Walnut · Rogers, AR 72756
479-936-2000 · FAX 479-936-2013

approaches to managing risk. The largest banks operate on transaction volume and pay little attention to their customer relationships. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage the ability to absorb losses.

First Western Bank is a $280 million financial institution originally chartered in 1910 as Citizens Bank of Booneville, Arkansas (a town of approximately 4,000 people now). We entered the Northwest Arkansas market approximately 20 years ago and now serve two markets, one in Western Arkansas and the other in Northwest Arkansas. Our Western market consists of many individual and farm customers while our Northwest market consists mostly of small business customers (less than 50 employees). We are committed to our customers and we strive to be a leader in helping to improve the quality of life for everyone in the markets we serve. In addition to providing a full line of quality financial services to our customers, we give back to the communities we serve through significant donations, contributions, and volunteer hours from our staff.

Like most community bankers in this country, we want to make sure we are able to continue to serve our communities as we have in the past. A strong economy is dependent on job growth and job growth is dependent on the availability of capital to fund small businesses that produce most of the jobs in this country. We want to ensure that the new rules do not reduce the ability of community banks to provide this capital.

Here are some of the specific areas of concern with the new proposals:

Incorporating AOCI as part of Regulatory Capital

Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. Additionally, demand for many implicitly and explicitly government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. This increased demand has caused credit spreads to tighten, further increasing bond valuations. Interest rates have fallen to levels that are unsustainable long-term once an economic recovery accelerates. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At First Western Bank, for instance, if interest rates increased by 400 basis points, the bank's bond portfolio would show a paper loss of $4,863,000 which means the tier one ratio would drop by 1.77%.

Large financial institutions have the ability to mitigate the risks of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes with the use of interest rate derivatives like interest rate swap, option, and futures contracts. Community banks do not have the knowledge or expertise to engage in these transactions and manage their associated risks, costs, and barriers to entry. Community banks should continue to exclude AOCI from capital measures as they are required to do today.

Capital Conservation Buffers

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal and therefore should not be implemented. Many community banks will need to build additional capital balances to meet the minimum capital requirements with the buffers in place. Community banks do not have ready access to capital that the larger banks have through the capital markets. The only way for community banks to increase capital is through the accumulation of retained earnings over time. Due to the current ultra low interest rate environment, community bank profitability has diminished, further hampering their ability to grow capital.

New Risk Weights

The proposed risk weight framework under Basel III is too complicated and will be an onerous regulatory burden that will penalize community banks and jeopardize the housing recovery. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks that offer these loan products and deprive customers of many financing options for residential property. Additionally, higher risk weights for balloon loans will further penalize community banks for mitigating interest rate risk in their asset-liability management. Community banks will be forced to originate only 15 or 30 year mortgages with durations that will make their balance sheets more sensitive to changes in long-term interest rates. Many community banks will either exit the residential loan market entirely or only originate those loans that can be sold to government-sponsored enterprises. Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. Furthermore, community banks will be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages.

Community banks should be allowed to stay with the current risk weight framework for residential loans.

Mortgage Servicing Rights

Penalizing the existing mortgage servicing assets under the proposal is unreasonable for those banks that have large portfolios of mortgage servicing rights. Any mortgage servicing rights existing on community bank balance sheets should be allowed to continue to follow the current risk weight and deduction methodologies.

Regulatory Burden

In general, the number of new regulations and the complexity of these regulations are major concerns for the banking industry. There is no way at this time to ascertain the full impact of the Basel III requirements on our bank because of the amount of work that will need to be undertaken to fully understand the rules, train staff on how to apply the rules, implement the coding of each individual loan in the portfolio with new risk weights, re-program or purchase software to handle the new coding requirements, and then create the necessary reports to analyze the data. Again, this is especially burdensome on community banks which operate with limited resources compared to larger banks.

In summary, I fully support an increase at some level in the amount of capital that banks hold. However, the cumulative effect of each of the items above will have a severe impact on most community banks in this country. I strongly urge you to consider this impact and to consider an exemption for community banks from these rules. The national economic recovery depends on community banks being able to continue to serve their communities in a way that strengthens the local economies.

Sincerely,

Vicki L. Miller

Vicki L. Miller
Chief Marketing Officer

The Bank of Tampa

POST OFFICE BOX ONE
TAMPA, FLORIDA 33601-0001

Ann Leavengood Giles
SENIOR VICE PRESIDENT

ARMENIA AVENUE OFFICE
4400 NORTH ARMENIA AVENUE
TAMPA, FLORIDA 33603
(813) 872-1204
FAX (813) 872-0458
E-MAIL: AGiles@bankoftampa.com

October 8, 2012

Re: Basel III Capital Proposals

Ladies and Gentlemen,

I appreciate the opportunity to comment on the proposed Basel III risk based capital requirements and other requirements recently approved by the Federal Reserve Board, The Comptroller of the Currency and the Federal Deposit Insurance Corporation. I am of the opinion that the Basel III capital requirements will have a significant negative impact on the ability of community banks to make loans that are needed by communities we serve.

In particular, the manner in which residential loans, with balloon features, and loans that exceeded 90% loan to value, will be affected, will all but eliminate residential loan making by many community banks. I believe most bankers realize that there is a need for more capital in the banking system and there is a need to provide more oversight of residential lending, especially among non-bank residential lenders. With that said, we are not aware of any empirical evidence that residential balloon mortgages have any more credit risk than a fully amortizing loan. Commercial banks cannot make thirty year fixed rates loans, due to the interest rate risk associated with a loan of this length of time. In our bank, and I am aware of many other community banks with similar experiences, we have not experienced any more loss with a loan with a balloon than with any other type of residential loan.

The Bank of Tampa currently makes about $1,000,000 in residential first mortgage loans each month to borrowers who are either unable to fit into the box of a secondary market loan, often due to the fact that they are small business owners and income is either not consistent or difficult to document, or, they simply prefer to deal with a lender they know and with the knowledge that their loan will not be sold into the secondary market. If it becomes necessary to allocate twice the capital to our residential first mortgage loan portfolio, it is very likely we will stop making these types of loans. If community banks across the country make a similar decision, the impact on the housing market will be sizable.

In addition to our first mortgage lending portfolio, we also have a $100,000,000.00 home equity portfolio. Most of the lines are secured by second mortgages on homes with loan to values at the time of the loans being 90% or less. Our home equity lines have ten year maturities. As they mature, we renew them as long as there has been a good payment history, without regard to the current loan to value of the loan. Also, at the time these lines were originally extended, our files may not have contained all of the information that Basel III will now require. If our home equity portfolio will now be regulated according to Basel III, the additional risk based capital requirement will be significant. The result will be that we will have to shrink our assets, at a time when our community needs us to help it recover from the recession. This isn't good public policy.

While our primary concern is the impact Basel III will have on residential lending, we are also concerned about our ability to correctly calculate risk based capital due to our inability to stratify our loan portfolio as will be required by Basel III. Extracting loan data, such as current loan to values, and obtaining data on borrowers that were not required when the loans were originated, will place additional cost on our bank. And, the complexity of the methodology of calculating risk based capital will make it difficult for us to do correctly, and we believe will make it difficult for regulators to regulate. To support our concern, I would like to point out that as of October 10, 2012, the three banking regulators have not been able to agree on a common methodology for determining risk based capital, as is evidenced by the fact that the agencies have not been able to release a common calculator to assist banks in understanding the impact the new risk based capital allocations might have on their banks.

Last, we are very concerned about the requirement that gains and losses on available for sale securities flow to regulatory capital. Since there is little our bank can do to control the impact a rising rate environment will have on our $360,000,000.00 investment portfolio, we will attempt to control the impact interest rate risk will have to our capital by shortening the maturity of our portfolio, leading us to earn less interest income. Mortgage back securities and government agencies will be less attractive to us. Our bank simply cannot afford the risk of having our capital impacted by marking to market a $360,000,000 bond portfolio and we will accept less investment income as a result.

In closing, I strongly urge you to reconsider the original purpose of Basel III, which was to require complex banks to hold more capital on their balance sheets, based on the complexity of their balance sheets. I ask you to exempt banks under $50 billion dollars for Basel III.

Sincerely,

Ann Leavengood Giles

Senior Vice President

Alpine Bank

Telluride
120 South Pine Street
Telluride, Colorado 81435
(970) 728-5050
(970) 728-5703 fax

October 6, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, DC 20429
Delivered via email comments@FDIC.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551
Delivered via email regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street SE
Mail Stop 2-3
Washington, DC 20219
Delivered via email regs.comments@occ.treas.gov

Re: Basel III Capital Proposals
OCC: Docket ID OCC-2012-0008
OCC: Docket ID OCC-2012-0009
FRB: Docket No. R-1430; RIN No. 7100-AD87
FRB: Docket No. R-1442; RIN No. 7100-AD87
FDIC: RIN 3064-AD95
FDIC: RIN 3064-AD96

Ladies and Gentlemen:

Alpine Bank will celebrate its 40th year as a successful community bank in western Colorado in a few short months. Never in our history have we been rated anything other than satisfactory in Capital. We have formed community partnerships in each of the 37 locations we serve and have had continuous ownership and consistent upper management throughout. We maintain 100,000+ household accounts, mostly small businesses in the communities we serve. We would very much like to continue to operate this way, and believe our customers feel the same way. We need them and they depend on us.

BASEL III raises major concerns about the long term viability of banks and the availability of credit in communities we serve!

For several years the near constant refrain from the public, public officials, media and others has been for banks to lend more to create more jobs. Basel III goes in the opposite direction: less credit, more expensive credit, fewer businesses (especially small businesses) due to credit restrictions and greater expense, and fewer jobs. Banks caught between popular demand for more credit, and regulators' aversion to any risk is not what we need as a country. Society is not well served by risk-free banks that make no loans.

The nature, scope and complexity of the Basel III capital requirements appear to be a complete over-reaction. We believe this will have a big negative impact on individual businesses, the general economy and most importantly, the future of our community!

We request a complete withdrawal of the proposed regulation.

Sincerely,

Andrew A. Karow

Andrew A. Karow
Regional President

CITIZENS
BANK & TRUST

P.O. Box 250
Guntersville, AL 35976
256-505-4600

September 27, 2012

To Whom It May Concern:

Dear Sir:

Thank you for the opportunity to voice some concerns about the proposed BASEL III capital standards. As is the case with most banking regulations that have been passed in the past several decades, unintended consequences abound with BASEL III. First, addressing capital standards to community banks that have just survived the worst financial environment in many decades is preaching to the choir. For us to have survived means that we appreciated the importance of capital before the crisis and appreciate it even more now. We feel that the introduction of these standards, especially the portions addressed below, into the community banking world are totally unnecessary and will do much more harm than good.

1. BASEL III includes increased risk weightings for many mortgage loans, particularly those with balloons and other non-traditional features. Balloons are used by community banks to assist with managing interest rate risk. If this tool were penalized by these new standards, the result would be one of two negatives; either banks would have more rate risk or consumers who do not fit conforming mortgage standards would lose the primary vehicle to obtain mortgage financing that is available to them in today's market.
2. BASEL III proposes a phase-out of Trust Preferred Shares as Tier I Capital. This issue was addressed in the debate on the Dodd Frank legislation. Why bring it up again? This avenue of raising capital has been very been very beneficial to community banks in the past because our access to capital in our local markets is very limited. Regulations are in existence and are sufficient.
3. BASEL III proposes to include unrealized gains and losses from the investment portfolio in Tier I capital. Because of many reasons, this proposal is the most onerous of the changes. If rates go up, which would happen because of a strengthening economy, our investment portfolio would suffer losses. If we are forced to recognize those losses in our Tier I capital, our ability to grow and make loans would be severely impaired. Just as we finally make our way out of this long economic slowdown, the brakes would be put on economic growth because banks would not have the ability to lend and assist the recovery because of accounting rules.

I urge you to please defeat these changes. We are already in an overregulated industry which keeps us from fulfilling an old parable for community bankers "If you grow your community, your community will grow you". That is our goal and we know how to do it very well if regulators and legislators will allow us to. Thank you again for considering our comments and opinions.

Sincerely,

Shane R. Wilks
Director, Citizens Bank & Trust

September 24, 2012

Comptroller of the Currency email: regs.comments@occ.treas.gov
Administrator of National Banks
Washington, DC 20219

RE: Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010

Federal Deposit Insurance Corporation email: comments@FDIC.gov
Executive Secretary Section
550 17th Street, N. W.
Washington, DC 20429

RE: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Board of Governors of the email: regs.comments@federalreserve.gov
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Basel III docket No. 1442

Gentlemen:

I am Chairman and CEO of First Financial Bank, N.A. in Abilene, Texas. We are the flagship bank of First Financial Bankshares, Inc. is a $4.3 billion bank holding company, which owns eleven separately charted community banks in West and Central Texas. We are publicly traded on NASDAQ under the symbol FFIN with a market capitalization of approximately $1.0 billion. Our banks are extremely community focused with local management and heavy community involvement. Our capital is strong with a 10.36% leverage ratio, a 17.23% risked based capital ratio and an 18.48% total risked capital ratio as of June 30, 2012 under today's regulations. We were voted the #2 ranked bank by Bank Director Magazine in the $1 to $5 billion category of publicly traded banks, and have been ranked #1 or #2 for the past four years.

We are writing to you to express our strong concerns over the new Basel III capital proposals. In summary, while we believe strong capital is paramount in banking and certainly community banking, we do not believe that Basel III was intended to be implemented at the community bank

level and the changes and complexity required under Basel III will be a large detriment to community banks, which could force many community banks to close (if they cannot raise additional capital) and add significant costs to the operations of banks that could force community banks to reduce important products and services for its customers, thus greatly hurting consumers and the United States economy. Basel III is not needed because you as the industry regulators are already making sure banks have adequate capital to operate in a safe and sound manner.

We will address six (6) areas of the Basel III proposals, that we believe directly impact community banks. The Basel III proposal is extremely complex and we are not saying these are the only provisions of Basel III that negatively impact community banks, but with these six areas you can clearly see how community banks are adversely affected.

1. Background: The proposal requires that all unrealized gains and losses in available for sale securities (AFS) must "flow through" to common equity tier 1 (CET1), a new term. Gains and losses in AFS portfolios occur primarily as a result of interest rate movements as opposed to changes in credit risk. Interest rates in debt securities can fluctuate frequently (often daily), and the proposed rules will cause significant volatility in capital calculations.

   Our eleven banks have $1.96 billion in AFS securities at June 30, 2012. As interest rates rise (and they ultimately will), our capital ratios will be adversely affected. We would likely have to change our investment strategy to stay very short in the market to minimize volatility. Should we limit our investments in longer duration assets? How will this affect local governments and the housing markets that depend on community banks to purchase longer term municipal bonds and mortgage backed securities. We are concerned about how this proposal might impact our asset/liability function and our liquidity, contingency funding plans and earnings.

   We are a community bank and, as such, should not be forced into the "mark-to-market" frenzy that has consumed other segments of the financial services industry.

In addition, this proposal will cause an increase in employee time to monitor our AFS portfolio. This may also require us to purchase software to stay in compliance. Both of these will add costs and lead to less time and service for our customers.

2. Background: The Dodd-Frank Act grandfathers Trust Preferred Securities (TruPs) for banks between $500 million and $415 billion. The Basel III proposal requires a complete phase out of TruPs. 90% of carrying value is allowed in 2013, with an annual decrease of 10% thereafter.

   While our banks do not have outstanding TruPs, community banks sold TruPs and put the capital in the banks based on the encouragement of the regulators and in full compliance with the regulations. To now disallow the TruPs under the Basel III proposal, community banks would have to decide how to replace the capital, which would not be easy to do in today's economy. Another alternative is to shrink the bank and reduce assets. This would mean less loans available for customers, less people hired by the community banks and, overall, a very negative impact for the consumer and our economy.

3. Background: The proposal assigns increased risk weights for residential home mortgages based on whether they are "traditional mortgages" in Category 1 or "riskier" in Category 2.

   Banks will be required to re-assess a mortgage after a restructuring or modification, except for HAMP loans. The proposal also does not recognize private mortgage insurance and there are no grandfather clauses. Banks will have to re-examine all loans on the books to determine if they come under the appropriate category and loan-to-value (LTV) for each mortgage. Risk weighting of these loans could double under the Basel III proposal.

   Our eleven banks have approximately 25% of our assets in mortgage assets. In addition, we originate approximately $170 million in mortgage loans that are sold to upstream banks in the secondary market.

   The most likely result of this proposal is that the availability of mortgages in the communities where we offer loans will be reduced.

In addition, our capital ratios will be negatively impacted from higher risk weighting resulting in the potential for us to have to raise additional capital. For certain, the regulatory burden, in additional to all the Dodd-Frank Act regulatory changes, will significantly increase the costs to originate mortgage loans and discourage community banks from being in the business. Obviously this will hurt the home building industry and stymie the economy recovery.

4. Background: The proposal defines “High Volatility Commercial Real Estate” (HVCRE) as acquisition, development and construction (ADC) commercial real estate loans except:

    1. One-to- four family residential ADC loans; or
    2. Commercial real estate ADC loans that meet LTV requirements, the borrowers’ cash in the project is at least 15% of the “appraised as completed” value prior to the advancement of funds by the bank and the borrower is required to remain in the project until the credit facility is converted to permanent financing, sold or paid in full.

    HVCRE loans are assigned a 150% risk weight compared to current risk weighting of 100%.

    Community banks are very active in financing construction projects in our market. By increasing the risk weighting to 150% or higher, our bank’s capital will have to be bolstered and the cost of our loans will increase which will result in less construction projects, job losses and very negative effect on the economy.

    In addition, the definitions and rules in this area are very complex, difficult to understand, and will likely result in additional labor and software costs to comply.

5. Background: The proposed rules will not allow banks to count as part of their common equity tier 1 (CET1) any mortgage servicing assets (net of deferred tax liabilities) that exceed 10% of their CET1. When aggregated with deferred tax assets and investments in common stock of an unconsolidated financial entity, all of that together may not exceed 15%.

While our banks do not have mortgage servicing rights on our balance sheet, many community banks do and if they are to continue servicing mortgages, will have to raise capital, something that is not easy for a community bank.

If community banks discontinue these services, customers will be harmed and so will earnings.

When you combine this proposal with the increased risk weighting for mortgage assets (see #3 above) that is also in Basel III, this will have a significant negative impact on the mortgage industry and our economy.

6. Background: The Basel III proposal will require all banks to collect new and often granular information in order to calculate risk weighted assets. New information will have to be obtained, maintained and reported in order to satisfy underwriting features as well as LTV features to satisfy due diligence requirements. Existing loans are not grandfathered. Information will have to be reported in different ways and with greater frequency. Monitoring capital with the new AFS requirements will also be time consuming.

   Our bank has approximately 950 employees. We are already laboring in an environment involving increased regulatory scrutiny in compliance exams and the new burdens being placed on us by the Dodd-Frank Act. Our compliance costs alone have increased significantly in the last 3 years and we have more than doubled our compliance staff.

   It appears that as proposed, Basel III will require us to change our internal reporting systems and provide additional employee training. More than likely we will have to hire additional employees. The complexity of the data requests most likely means that we will also have to install new software systems and/or look for third parties to provide them. The compliance costs will pull money out of capital and earnings rather than help our borrowers.

* * * * * *

As can be seen from just these six examples, Basel III will have a very negative impact on community banks that we believe was never intended. We have closely followed the evolution of Basel III over the years and its objective has primarily centered on money centered, very large banks, including international. These banks have complex operations, including investment banking operations and derivative trading, that Basel III was focused on addressing.

We therefore recommend and request that a size and complexity of operations scope be established that would exclude community banks from the provisions of Basel III.

Thank you for allowing us to share our opinions on Basel III.

Sincerely,

Ronald D. Butler, II
Chairman of the Board
Chief Executive Officer

From: Ruben Robledo
Sent: Wednesday, August 08, 2012 2:37 PM
Subject: Basel III OCC Docket Id OCC-2012-0008, and 0010

I would like to ask for an extension on the comment period for the issue listed above. The reasons for this request are :

1. The comment period, scheduled to end on Sept. 7, 2012 does not provide sufficient time to examine adequately the implications and impact of the proposal on my bank and my customers and then to provide comments reflecting the information that the agencies will need to make fully informed judgments. This is particularly true for community banks that were not anticipating the Basel III proposal to be applicable to them.

2. Few banks have designated staff to review the Basel III proposal. As a result, their review of the proposal has to compete for bank staff time with day to day bank operations.

3. The Basel III proposal has not been formally published in the Federal Register. The drafts that have been released by the banking agencies are just that, drafts. As a result, banks are uncertain what will be contained in the final proposal. I feel the banking agencies should start the comment period once the proposal is published and the comment period could run at least 90 days.

Thank you,

RUBEN ROBLEDO
PRESIDENT/CEO
CITIZENS STATE BANK
1300 W. HILDEBRAND
SAN ANTONIO, TX. 78201

August 31, 2012

Comptroller of the Currency email: regs.comments@occ.treas.gov
Administrator of National Banks
Washington, DC 20219

RE: Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010

Federal Deposit Insurance Corporation email: comments@FDIC.gov
Executive Secretary Section
550 17th Street, N. W.
Washington, DC 20429

RE: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Board of Governors of the email: regs.comments@federalreserve.gov
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Basel III docket No. 1442

Gentlemen:

First Financial Bankshares, Inc. is a $4.3 billion bank holding company, which owns eleven separately charted community banks in West and Central Texas. We are publicly traded on NASDAQ under the symbol FFIN with a market capitalization of approximately $1.0 billion. Our banks are extremely community focused with local management and heavy community involvement. Our capital is strong with a 10.36% leverage ratio, a 17.23% risked based capital ratio and an 18.48% total risked capital ratio as of June 30, 2012 under today's regulations. We were voted the #2 ranked bank by Bank Director Magazine in the $1 to $5 billion category of publicly traded banks, and have been ranked #1 or #2 for the past four years.

We are writing to you to express our strong concerns over the new Basel III capital proposals. In summary, while we believe strong capital is paramount in banking and certainly community banking, we do not believe that Basel III was intended to be implemented at the community bank level and the changes and complexity required under Basel III will be a large detriment to community banks, which could force many community banks to close (if they cannot raise additional capital) and add significant costs to the operations of banks that could force community banks to reduce important products and services for its customers, thus greatly hurting consumers and the United States economy. Basel III is not needed because you as the industry regulators are already making sure banks have adequate capital to operate in a safe and sound manner.

We will address six (6) areas of the Basel III proposals, that we believe directly impact community banks. The Basel III proposal is extremely complex and we are not saying these are the only provisions of Basel III that negatively impact community banks, but with these six areas you can clearly see how community banks are adversely affected.

1. Background: The proposal requires that all unrealized gains and losses in available for sale securities (AFS) must "flow through" to common equity tier 1 (CET1), a new term. Gains and losses in AFS portfolios occur primarily as a result of interest rate movements as opposed to changes in credit risk. Interest rates in debt securities can fluctuate frequently (often daily), and the proposed rules will cause significant volatility in capital calculations.

   Our eleven banks have $1.96 billion in AFS securities at June 30, 2012. As interest rates rise (and they ultimately will), our capital ratios will be adversely affected. We would likely have to change our investment strategy to stay very short in the market to minimize volatility. Should we limit our investments in longer duration assets? How will this affect local governments and the housing markets that depend on community banks to purchase longer term municipal bonds and mortgage backed securities. We are concerned about how this proposal might impact our asset/liability function and our liquidity, contingency funding plans and earnings.

   We are a community bank and, as such, should not be forced into the "mark-to-market" frenzy that has consumed other segments of the financial services industry.

   In addition, this proposal will cause an increase in employee time to monitor our AFS portfolio. This may also require us to purchase software to stay in compliance. Both of these will add costs and lead to less time and service for our customers.

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   While our banks do not have outstanding TruPs, community banks sold TruPs and put the capital in the banks based on the encouragement of the regulators and in full compliance with the regulations. To now disallow the TruPs under the Basel III proposal, community banks would have to decide how to replace the capital, which would not be easy to do in today's economy. Another alternative is to shrink the bank and reduce assets. This would mean less loans available for customers, less people hired by the community banks and, overall, a very negative impact for the consumer and our economy.

3. Background: The proposal assigns increased risk weights for residential home mortgages based on whether they are "traditional mortgages" in Category 1 or "riskier" in Category 2.

   Banks will be required to re-assess a mortgage after a restructuring or modification, except for HAMP loans. The proposal also does not recognize private mortgage insurance and there are no grandfather clauses. Banks will have to re-examine all loans on the books to determine if they come under the appropriate category and loan-to-value (LTV) for each mortgage. Risk weighting of these loans could double under the Basel III proposal.

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4. Background: The proposal defines "High Volatility Commercial Real Estate" (HVCRE) as acquisition, development and construction (ADC) commercial real estate loans except:

    1. One-to- four family residential ADC loans; or
    2. Commercial real estate ADC loans that meet LTV requirements, the borrowers' cash in the project is at least 15% of the "appraised as completed" value prior to the advancement of funds by the bank and the borrower is required to remain in the project until the credit facility is converted to permanent financing, sold or paid in full.

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    Community banks are very active in financing construction projects in our market. By increasing the risk weighting to 150% or higher, our bank's capital will have to be bolstered and the cost of our loans will increase which will result in less construction projects, job losses and very negative effect on the economy.

    In addition, the definitions and rules in this area are very complex, difficult to understand, and will likely result in additional labor and software costs to comply.

5. Background: The proposed rules will not allow banks to count as part of their common equity tier 1 (CET1) any mortgage servicing assets (net of deferred tax liabilities) that exceed 10% of their CET1. When aggregated with deferred tax assets and investments in common stock of an unconsolidated financial entity, all of that together may not exceed 15%.

While our banks do not have mortgage servicing rights on our balance sheet, many community banks do and if they are to continue servicing mortgages, will have to raise capital, something that is not easy for a community bank.

If community banks discontinue these services, customers will be harmed and so will earnings.

When you combine this proposal with the increased risk weighting for mortgage assets (see #3 above) that is also in Basel III, this will have a significant negative impact on the mortgage industry and our economy.

6. Background: The Basel III proposal will require all banks to collect new and often granular information in order to calculate risk weighted assets. New information will have to be obtained, maintained and reported in order to satisfy underwriting features as well as LTV features to satisfy due diligence requirements. Existing loans are not grandfathered. Information will have to be reported in different ways and with greater frequency. Monitoring capital with the new AFS requirements will also be time consuming.

   Our bank has approximately 950 employees. We are already laboring in an environment involving increased regulatory scrutiny in compliance exams and the new burdens being placed on us by the Dodd-Frank Act. Our compliance costs alone have increased significantly in the last 3 years and we have more than doubled our compliance staff.

   It appears that as proposed, Basel III will require us to change our internal reporting systems and provide additional employee training. More than likely we will have to hire additional employees. The complexity of the data requests most likely means that we will also have to install new software systems and/or look for third parties to provide them. The compliance costs will pull money out of capital and earnings rather than help our borrowers.

* * * * * *

As can be seen from just these six examples, Basel III will have a very negative impact on community banks that we believe was never intended. We have closely followed the evolution of Basel III over the years and its objective has primarily centered on money centered, very large banks, including international. These banks have complex operations, including investment banking operations and derivative trading, that Basel III was focused on addressing.

We therefore recommend and request that a size and complexity of operations scope be established that would exclude community banks from the provisions of Basel III.

Thank you for allowing us to share our opinions on Basel III.

Sincerely,

Gary S. Gragg
Executive Vice President
and Chief Lending Officer

1st NATIONAL BANK

FIRST NATIONAL BANK
451 Sudderth Drive
Ruidoso, New Mexico 88345
(575) 257-4033 • Fax (575) 257-8357
www.fnb4u.com

September 5, 2012

Federal Reserve Board
20th St & Constitution Ave NW
Washington, DC 20551

Reference: Basel III implementation

Dear Sirs:

I would like to respond to the recent NPR on the implementation of the Basel III capital standards. While the proposal mirrors the Basel III International Accord, which targeted only the largest, internationally active banks, it is sweeping in its scope and complexity and now is aimed at all banks regardless of size. This change jeopardizes the viability of the community bank model and places a tremendous additional regulatory burden on the smaller banks.

Most community banks have simplified balance sheets and traditional lending programs and I believe that imposing these new standards will place an unnecessary hardship on the class of banks that have been the cornerstone of American banking. The facts point to the larger banks as being the problem and it is time the blame and solution be aimed where it should be. In reality, 5% of the banks have caused 95% of the problems. Holding all banks to the same standard is unfair and unnecessary.

I strongly disagree with the provision to include AOCI in the capital calculation. This would introduce a tremendous amount of volatility in capital and make capital planning difficult at best. Community banks would be forced to hold additional capital to compensate for the increased volatility. Most community banks do not have the expertise to "hedge" the impact of changes in interest rates on AOCI and would therefore be at a disadvantage.

Many of the other provisions of the Basel III requirements are also unnecessary and burdensome to community banks. Changing the risk weightings is counter-productive to the Government's desire to increase small business lending, spur the housing market and improve the national economy.

I would encourage you to re-evaluate the entire proposal and exempt or restrict the community banks from these requirements.

Sincerely,

October 12, 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:

I appreciate the opportunity to provide comments on the Basel III proposal that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. While the intent of these rules is to strengthen the banking industry, which I support, the potential impact could very well be to favor very large banks and non-community bank providers of residential mortgages. This seems contrary to minimizing "too big to fail" and potentially rewards non-bank originators of residential mortgages who were major contributors to our country's real estate crisis. I have real concerns as to how this proposal will affect my bank, our industry and the economy in the years to come. The following provides some specificity as to some of the potential consequences for my institution

I am the President/ Chief Executive Officer of the Bank of Canton, a 176 year-old mutual savings bank located in Canton, Mass with $625 million in assets and $59 million of total capital. Our Tier 1 Capital / Leverage as of 9/30/12 is 8.62%, and Total Risk-based Capital as of 9/30/12 is 14.29%. I am writing to register my opposition to the proposed Basel III capital standards. The following provisions contained in this proposal will be significantly detrimental to our Bank and community banks like ours.

1. The elimination of Trust Preferred securities from capital will cause us to restrict our growth. As a mutual savings bank we have no shareholders and can only increase our capital levels thru earnings or by decreasing our size. We currently have $10 million of Trust Preferred securities outstanding. At a minimum we would need to restrict our growth to offset the elimination of this capital. We would probably need to actually shrink our assets to ensure adequate capital levels.

2. We have a very successful residential lending business. Over the past four years we have originated and sold over $3 billion in residential loans. On an annual basis our residential loan sales volume normally exceeds our total assets. The inclusion of loans sold that are still "under warranty" in the capital calculation could increase our risk-weighted asset level by as much as 25%-30%, requiring a similar amount of additional capital (which I estimate at $15 million). Because of the unpredictability of lending volumes we would have to hold capital equal to the projected peak volume levels. If this provision is included in the final regulations we will have to drastically reduce or eliminate this line of business. As a mutual bank we would not be able to raise the capital necessary to support it. Residential lending is a core banking function that significantly benefits our community and our Bank. The amount of the capital charge also seems to totally unrelated to the risk level. We have never repurchased a loan due to the "early default" provision nor have we incurred any losses from loans we have sold. From a "risk" standpoint the $15 million capital requirement is clearly too high to support an activity that does not have a history of losses.

Over the last 5 years we have been recognized 3 times as the top provider of loans to minority and low income borrowers by the Massachusetts Housing Financing Agency an honor that we take great pride in. Performance of these high loan to value residential mortgages originated by our bank meet or exceeds the peer group performance based upon conversations with senior management at the agency. The definitions of residential lending categories coupled with the proposed requirement to hold capital during the representation and warranty period (not clearly defined) will limit our appetite for this type of good lending that has benefited the bank and the community at large.

Loans originated for our own portfolio will likely be even more conservative than in the past to account for new risk weighting standards and treatment of past due accounts.

3. The inclusion of unrealized gains and losses on investments where the par value of the security is expected to be paid at maturity (i.e., bonds) will cause unnecessary volatility in capital levels. Our Bank currently has significant levels of unrealized gains that may in fact never be realized- they could disappear tomorrow if market interest rate were to rise. These "market" gains shouldn't be relied upon as capital to support the Bank's operations. Similarly, losses shouldn't be deducted from capital until they are realized as long as the bond is expected to be redeemed at par at maturity. A bond's market price will fluctuate, but as long as the securities par value is expected to be paid at maturity these temporary holding gains and losses are not an appropriate addition or deduction to capital.

Ironically, when the economy begins to grow and interest rates begin to rise "market losses " may cause the many banks to be unwilling or unable to lend based upon the reduction in capital levels caused by recognizing gains or losses through the income statement. Management of interest rate risk is essential but the current regulatory regimen and monitoring of quarterly call reports can adequately address this area of concern.

Both the industry and regulators must learn from the recent shock to banking system and our economy caused by use of sophisticated financial instruments and weak underwriting standards. However, I have confidence that small enhancements to the regulatory system that has served us well over the years combined with some modest increase in capital requirements can adequately address the risks present in the community bank segment of the industry.

Respectfully yours,

Stephen P. Costello

Stephen P. Costello
President/ CEO
Bank of Canton
Canton. MA 02021