From: Gene McCauley [mailto:genem@texasbnk.com]
Sent: Wednesday, August 29, 2012 9:28 AM
To: Comments
Cc: Scotty Cawthon; Paul Morris; Lisa Cook
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Texas Bank in Henderson Texas has a securities portfolio of 175 million as of the end of June. 136 million of that was classified as available for sale. The adoption of this proposal will cause Texas Bank to sell many of our AFS bonds or move most of the longer term AFS bonds to HTM. Even the proposal itself has caused us to consider switching many of our AFS bonds to HTM while interest rates and market values are favorable since we do not know what interest rates will do and do not know whether this proposal will be adopted when interest rates and therefore market values have turned against us.

A bank with bonds in HTM vs a bank with the exact same bonds in AFS is the exact same bank. The bank with the bonds in HTM simply has less liquidity and has less flexibility to address interest rate risk and control the assets/liability function. The bank with AFS bonds will have a better chance of getting rid of a bond that shows more interest rate risk or adjust their portfolio as the loan portfolio changes. The HTM bank is stuck with that bond. Thus the Asset/liability function, liquidity, and contingency planning is GREATLY hindered by this proposal with NO real benefit. Any unrealized loss in a portfolio can be seen by investors and regulators in the financial disclosures. This is more regulatory burden on the bank and our ability to serve our customers with no real benefit to our customers, investors, or regulators.

What good does it do to force a community bank into mark to market and be subject to the valuation fluctuations that goes along with it. Back in the recent crash when the markets froze up, our unrealized AFS loss was at 5 million. This was no reflection in the quality of our bonds. It was just a case of the market freezing up because there were too many scared and desperate sellers and not enough buyers. Now these bonds that had huge losses have gains in almost all cases. Since this 5 million unrealized loss did not count against tier 1 capital, Texas Bank was able to buy more bonds during this crash and strengthen the bank's long term earnings and capital. If we had been under this proposal we would have had to sell bonds in order to shrink the bank due to the UNREALIZED deterioration of capital that would have been caused by this ill-conceived proposal. Multiply that by all the other banks that would have had to do likewise and the economy would have been even worse.

What will this do to the bond market for these securities? What will this do to the financing for the local governments and housing markets if banks must keep all longer bonds in HTM from now on. They will keep fewer of these securities which will raise the financing costs of these entities and for home buyers.

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