From: Byron Bexley [mailto:BBexley@texstar-bank.com]
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To: regs.comments@occ.treas.gov; regs.comments@federalreserve.gov; Comments
Subject: Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010; Basel III docket No. 1442; Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

As a community bank we have several concerns about the proposed Basel III capital standards. One of our concerns is the proposed requirement that all unrealized gains and losses in available for sale securities (AFS) must flow through to common equity tier 1. These gains or losses can be volatile depending on the current interest rate environment. This volatility would cause significant fluctuations in capital and do not represent a true piece of capital. If this becomes law, many community banks will likely evaluate holding US Government and other securities in their investment portfolio. This will affect profitability of those banks and will more importantly affect the ability of government entities to issue securities. If fewer banks are purchasing securities it will likely cause an increase in borrowing costs for the government. In addition, an negative impacts to capital caused by Basel III will affect the calculation of the bank's legal lending limit. This would probably lower the bank's legal lending limit and affect our ability to make loans to small businesses. When you spread this across the spectrum on community banks it will adversely affect the level of lending to small businesses. In addition, this will inadvertently give a competitive advantage to large banks, since they have greater access to capital markets. TexStar National Bank has assets of $175 million. Currently the bank has an unrealized gain on its AFS securities of $253M. However, our current interest rate risk modeling shows that a 300 basis point increase would result in an unrealized loss on AFS securities of $644M. This would reduce the Bank's lending limit by approximately $100M. Our Bank would still be in good shape on our capital ratios. However, a bank that carries a larger investment portfolio could have a capital event, even if they held on to the securities. Another negative is the fact that we will have to invest in additional software and personnel to take care of this area instead of focusing our resources on serving our customers and shareholders.

Another concern we have of the proposed Basel III capital standards is the proposed increase in risk weights for residential mortgages. TexStar National Bank currently has $13 million in residential mortgages portfolioed in our bank. The bulk of these mortgages are in a mini-perm product where the mortgage balloons. Most of these mortgages have been made to small-business owners that are very good credit risks but do not qualify for mortgage loans in the secondary market due to additional requirements on small-business owners. The bank is willing to make a mortgage loan to these borrowers but is unwilling to take-on long-term interest rate risk (a risk being discouraged in the investment portfolio as evidenced by the proposed AFS flow through wording in Basel III). As a result we provide a shorter-term mortgage based on a long-term amortization. Based on the proposal to label these mortgages as Category 2 or high risk mortgages a higher risk weighting will be required. If this occurs, TexStar National Bank will probably have to discontinue making this type of mortgage. This will result in fewer mortgages being granted to qualified borrowers and fewer homes being sold. Since mini-perm mortgages are a common practice among community banks, this will more than likely result in a significant drop in mortgage loans being made and as a result fewer houses being sold.

In order to calculate the newer much more granular risk weighting for assets our bank will have to invest in additional software and will have to devote more man-hours to the calculation process. We will also have to collect additional information from our borrowers, making the already cumbersome loan application process even more cumbersome. The increased requirements will further increase our compliance costs which are already at approximately 13% of our annual income. None of these additional investments of time and money will benefit our customers or the community we serve. Ultimately, the bank will have no alternative but to pass the additional compliance costs on to the customers. This increased cost at community banks will be proportionately higher than at large banks, giving the large banks a competitive advantage. Eventually this will lead to a greater consolidation of the banking industry into large banks. This would be unfortunate since most of the lending to small business in the U.S. is being done by community banks.

Please reconsider the proposed Basel III capital standards.

Byron K. Bexley
Chairman and CEO
TexStar National Bank
600 Pat Booker Rd.
Universal City, Tx 78148
ph: 210-659-4000
fax: 210-659-4936
E-mail: bbexley@texstar-bank.com