From: Danny Brooks [mailto:dannyb@vbtex.com]
Sent: Wednesday, October 17, 2012 2:22 PM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

October 17, 2012

Mr. Ben Bernake, Chairman
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Mr. Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Mr. Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency

Re.: Basel III Regulatory Capital Proposal

Gentlemen:

ValueBank Texas is a locally-owned independent community bank located in Corpus Christi, Texas, with total assets of $185 Million.

We would like to offer the following comments in response to the requests for comments in the notice of proposed rulemaking on minimum regulatory capital and the standardized approach for risk-weighted assets within the implementation of Basel III:

We feel that the Basel III proposals were intended for large, sophisticated financial institutions competing with similar institutions on the global stage. We are concerned that regulatory authorities would include Community Banks in these complex new capital guidelines. These proposals are an unnecessary and costly regulatory burden that will result in damaging unintended consequences, including further consolidation of the industry.

Community Banks recognize the importance of appropriate levels of capital as a key component of a safe and sound banking system. Tier 1 capital levels for most Texas community banks are at an all time high. Our concern is the burdensome process of implementing complex new rules on community banks. We do not believe it is necessary or appropriate to redefine capital adequacy for all banks, regardless of size or risk profile, to accomplish the goal of adequate capital.

Lawmakers, regulators and the public generally all agree that community banks didn't participate in the risky behavior that led to the financial meltdown. Why then, should we be unnecessarily subjected to the burdensome new regulations which might lead many to question the ultimate survival of our franchise.

The risk weightings, especially in the mortgage loan category, are excessive, and will further challenge an already struggling market. Because of a number of already imposed restrictions (including escrow requirements, balloon note limitations, appraisal standards, zero-tolerance on good faith estimates, etc.) many banks have significantly curtailed mortgage lending efforts. It is simply overkill in an attempt to fix problems that we did not contribute to or participate in, and it is the consumer who will suffer as a result.

Community banks are not subject to the whims of Wall Street analysts on a quarterly basis, and are in it for the long term. Short-term interest rate swings should not be included in the regulatory capital calculations.

Where does the Allowance for Loan Losses fit into the equation? Specific allocations of capital are already being made for higher risk, classified, past due and non-accrual loans. However, the proposal does not allow for inclusion of the allowance in the determination of regulatory capital. We must remember that the allowance has long represented the first line of defense against harmful credit losses and it properly represents an allocation of capital to meet that objective. Yet the proposal ignores its importance by not elevating at least some component as higher tier capital. We think there should be some adjustments in the way this important risk management tool is utilized by banks and evaluated by the regulators.

In conclusion, the community banking industry is overwhelmed by governmental regulation, and this proposal unnecessarily creates additional regulatory burdens. Ultimately, this burden will lead to higher borrowing costs and diminished availability of credit and bank services to consumers, small businesses and local governmental entities. Given the tenuous state of the economic recovery, the implementation of this burdensome proposal seems counter-intuitive at this time.

The logical and practical thing to do is exempt all but those complex international banking institutions considered "systematically important" from these burdensome, elaborate, and counterproductive capital rules. Community banks should be allowed to continue using the current Basel I risk weighting factors, which have historically served banks, customers and regulators very well.

Thank you for the opportunity to comment on these proposals. We appreciate your consideration of our concerns.

Sincerely,

R. Scott Heitkamp
President / C.E.O.

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