TexasBankers Association
One Industry. One Vision. One Voice.

October 17, 2012 *VIA ELECTRONIC SUBMISSION*

Ben Bernanke
Chairman
Federal Reserve Board of Governors
20th and C. Street, NW
Washington, DC 20551

Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E. Street, SW
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 the Texas Bankers Association (TBA). TBA has represented the banking industry in Texas since 1885. We are the oldest and largest state banking association in the country. There are 582 bank and thrifts chartered in our state and approximately 50 other banking institutions that do business here. Over 85% of these institutions are members of the TBA.

I write to voice our concerns 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.

TBA recognizes the need for strong capital requirements, and an assessment of Texas institutions will show you that we are well capitalized, and in many instances extremely well capitalized, today. We do 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. 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.

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The Mark to Market of Available for Sale Securities (AFS) for Common Equity Tier 1 (CET1)
The rallying cry of "mark to market" has been a mainstay for national and international regulators for several decades. It was never intended for smaller banking institutions that 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. Have any of the American state or federal regulators indicated that we should put AFS fluctuations in Tier 1? I doubt it. State banking regulators need to be included in any discussion or consideration of mark to market, and to my knowledge they have not up to this point.

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 Volatililty 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. Perhaps many people in Washington believe that the country will be well-served by a half dozen banks providing all consumer and commercial credit in the country. Texas communities, especially rural communities, will be hurt.

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. A credit union recently purchased a bank in Wisconsin. Credit unions' assets exceed $1 trillion , and they are growing. Incidentally, the 5,000 smallest community banks that will be affected the most by the adoption of Basel III only have $1 trillion in assets. As such, the best request that Texas bankers can make is to exempt the 6,000 community banks from Basel III as well.

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,

J. Eric T. Sandberg Jr.

J. "Eric" T. Sandberg, Jr.
President & Chief Executive Officer
Texas Bankers Association