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To: Comments
Cc: Chris ; Cam; Bil.Flores@mail.house.gov
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96

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Robert E Feldman, Executive Secretary
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Ref: Docket FDIC RIN 3064-AD95
Docket FDIC RIN 3064-AD96

Ladies and Gentlemen,

The BASEL III capital proposal was not written to be applied to the community bank business model and was never intended to be used in the manner proposed. First National Bank of Moody is very well capitalized with a Tier 1 Leverage Ratio of 18.67%, a Tier 1 Risk-Based Ratio of 33.51% and a Total Risk Based Capital Ratio of 34.78% as of June 30, 2012. The overwhelming majority of community banks are well capitalized and will remain so using the Basel III calculation. For community banks and our regulators and the public there is no benefit to moving to Basel III for the Community Bank Business Model.

The current measurement of capital being used for Community Banks adequately meets the needs of community bank regulators, our depositors, and our owners/investors. As to depositors and investors in local community banks, most understand the Tier 1 Leverage Ratio, but few understand the current risk based capital ratios. The very complicated capital calculations in Basel III will provide absolutely no benefit to any user of this information and will in fact lead to a great deal of confusion.

The inclusion of AOCI in Tier 1 common equity will greatly increase the volatility of capital during periods of rapidly changing interest rates. Such volatility can serve no useful purpose. AOCI is currently stated on the community bank balance sheet. Community banks have stated capital that acts as a buffer to AOCI in periods of rapidly rising interest rates and in periods of rapidly falling interest rates to include AOCI as a component of equity capital would overstate equity capital and would be misleading. This proposal included in Basel III would work to reduce transparency for real world users of community bank financial statements, would create confusion for depositors, and would be detrimental to community banks and their owners.

The Basel III capital calculation is so complicated that any small benefit is far outweighed by the cost to implement. I gave my cashier the FDIC Basel III Calculator and asked her to run the calculation so that I could access the impact and inform my board of directors. She came back to me stating that the calculator was too complicated, that she did not have the ability to pull the information from our core system that was needed to run the calculator, and that our loan system did not even have the required information. She stated that she could not run the calculator unless I just wanted her to make a WAG at the buckets and hope that the results would be close. First National Bank of Moody would have to completely redesign our general ledger, and recode our entire loan portfolio in order to determine which assets should go into which of the many risk weighted buckets that are proposed in the Basel III calculation. This would take considerable employee time on an ongoing basis (forever more), reprogramming of loan core software, and retraining of loan operations personnel all to determine what is already known by any and all possible users of the financial statements of our bank, that First National Bank of Moody is well capitalized. Furthermore, the asset buckets as defined and the risk weights assigned to those buckets appear to be very arbitrary and subjective, resulting in a calculation that is in fact an imprecise measurement of capital.

There is no logical reason that community banks should be subject to Basel III. First National Bank of Moody Texas and all community banks should be 100% exempted from BASEL III. BASEL III should be applied only to the international mega banks for which it was designed.

Yours Truly

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