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FISHER, HERBST & KEMBLE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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October 18, 2012

The Honorable Ben Bernanke
Chairman
The Federal Reserve System
20th Street and Constitution Ave, NW
Washington, DC 20429

The Honorable Tom Curry
Comptroller
Office of the Comptroller of the Currency
250 E. Street, SW
Washington, DC 20219

The Honorable Marty Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

File Reference: Comments Regarding Basel III

Fisher, Herbst & Kemble, P.C. provides accounting and tax services to approximately 32 financial institutions throughout the state of Texas. The shareholders, officers and employees of the community banks we serve are active in serving their respective communities. We are writing to express our concern and opposition to the proposed rules regarding Basel III as described in the Notices of Proposed Rulemaking (NPRs) titled as follows:

1. **Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; and**

2. **Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements**

Our community banks are adversely impacted by the NPRs as follows:

1. Risk weightings for 1-4 family loans
2. Inclusion of accumulated other comprehensive income in Common Equity Tier 1 capital
3. Capital Conservation and Counter Cyclical Buffers

1. *RISK WEIGHTINGS FOR 1-4 FAMILY LOANS*

The proposed risk-weightings for 1-4 family loans will require detailed information to be gathered from loan records in order to obtain the lowest possible weighting. Currently 1-4 family loans are weighted at 50% if they are first lien, prudently underwritten, owner occupied or rented, and less than 90 days past due otherwise the risk-weighting is 100%.

New Changes Proposed for 1-4 Family Loans

The proposed risk-weightings for 1-4 family loans require classification between Category 1 and Category 2. Category 1 loans include the following characteristics:

1. Term not to exceed 30 years
2. Repayment terms fully amortize the loan, with no balloon payment
3. Meets current underwriting standards
4. Is not more than 90 days past due
5. Is not a junior lien

1-4 family loans that are not category 1 will be classified as category 2. The risk-weighting is based on the lower of the acquisition cost or fair value at the time of the loan origination. This will require community banks to obtain and systematically store information about the original loan-to-value so that the calculation can be calculated each quarter.

It is not uncommon for community banks to currently have 1-4 family loans that amortize over 30 years but have a balloon payment at 5 years. Due to the balloon feature these types of 1-4 family loans would automatically be a classified as category 2.

Our concerns regarding the new changes to 1-4 family risk weighting are as follows:

a. It will be time intensive to determine and track the loan-to-value so management of a community bank may decide to classify their 1-4 family loans with a risk weighting of 200%. This could lead to different practices of risk weighting between community banks and result in non-comparable capital ratios.

b. Most of the community banks we serve have less than a 25 basis point loss on their 1-4 family loans. The proposed risk-weightings would indicate far different risk than our community banks have experienced for their 1-4 family loans.

c. The proposed rules require that a balloon payment on a 1-4 family loan would be category 2 and require more capital. This treatment adversely impacts the typical mortgage loans a community banks often offers with a 30 year amortization and a 5 year balloon. These loans have a balloon to adjust the interest rate and to allow the banker to interact with their borrower. These rules penalize the community bank for a prudent method of lending in their communities.

d. The proposed risk weighting adds one more element encouraging community banks to exit the market of 1-4 family loans. By exiting the 1-4 family loan market, their communities will have limited options in obtaining mortgages for property in their communities.

2. INCLUSION OF ACCUMULATED OTHER COMPREHENSIVE INCOME IN COMMON EQUITY TIER 1 CAPITAL

Changes Proposed

The NPR introduces Common Equity Tier 1 Capital (CET1) as a new capital measure. CET1 is the base in which the Tier 1 and 2 capital elements will be added. The unrealized gain or loss on investment securities classified as available-for-sale, a component of Accumulated Other Comprehensive Income (AOCI), is proposed to be included within CET1 and all capital measures.

Our concerns with changes proposed regarding the inclusion of accumulated other comprehensive income in CET1 are as follows:

a. This will cause a significant amount of volatility within the capital ratios and impact comparability of capital between banks.
b. Including AOCI in CET1 does not recognize the aspect of asset/liability management or the changes in fair value between other interest bearing assets and liabilities. Banks will need to manage their capital accordingly to absorb the changes in the fair value of investment securities classified as available-for-sale or consider changing the classification of securities to held-to-maturity. Classifying investment securities as held-to-maturity would impact management of liquidity.
c. With interest rates at historical lows the capital of a bank will be adversely impacted when interest rates start to increase.
d. Inclusion of AOCI in CET1 would increase the time to manage capital.

3. CAPITAL CONSERVATION AND COUNTER CYCLICAL BUFFERS

Community banks we provide services to have faithfully served their communities and often maintain capital in excess of standards called for by regulation. In recent years many have added to their capital based on recommendations from their respective regulatory agencies often when management did not believe additional capital was needed or warranted. Community banks are now challenged by two new capital "buffers".

Proposed Changes regarding Capital "Buffers"

First, the Capital Conservation Buffer (CCB) is designed to conserve capital by limiting distributions/payments if a bank does not hold a certain amount of capital in addition to the minimum risk-based capital ratios.

The following distributions/payments could be limited or eliminated depending on the capital position of the bank:

1. Distributions of capital; and
2. Discretionary bonus payments.

Second, the Countercyclical Capital Buffer applies only to advanced approaches banking organizations. Advanced approaches banking organizations are generally those banking organizations exceeding $50 billion in consolidated assets. The Countercyclical Capital Buffer is an extension of the CCB and is used by the regulators as needed under certain circumstances. The Countercyclical Capital Buffer is initially expected to be set at zero and would not exceed 2.5% of RWA assets.

Our concerns regarding the proposed changes to "buffers" include the following:

a. The CCB is composed of Common Equity Tier 1 capital but is separate from minimum capital guidelines and Prompt Corrective Action (PCA). As proposed, a banking organization's capital conservation buffer would be the lowest of the following measures:

   1. The bank's common equity tier 1 capital ratio minus its minimum common equity tier 1 capital ratio of 4.5%;
   2. The bank's tier 1 capital ratio minus its minimum tier 1 capital ratio of 6.0%; and
   3. The bank's total capital ratio minus its minimum total capital ratio of 8.0%.

Many of our community banks have actual CET1 capital in excess of these limits but would not in rates up 300 basis points. Often the risk in the actual investment portfolio is low and these rules negatively impact our community banks who have historically maintained strong capital.

b. The Countercyclical Capital Buffer does not apply to any of the banks we serve but we are concerned that these rules will be implicitly applied to community banks resulting in an increasing demand for additional capital.

Concluding Comments

Thank you in advance for your time and consideration. We believe the NPRs are overly complex and burdensome for our community banks. Significant time and resources will be required to monitor capital and prepare for regulatory reporting. For the time and effort involved we do not believe it will significantly increase the current capital of our community banks.

The following summarizes our recommendations:

1. It is our recommendation the proposed rules of the NPRs not be applied to banks with an asset size under $10 billion including the aspects of including the AOCI and risk weightings for 1-4 family loans.
2. We recommend the exemption for Trust Preferred Securities (TruPS) for banks between $500 million and $15 billion in assets be similar to the exemption allowed by Dodd-Frank.
3. We recommend maintaining the small bank holding company exemption allowed by 12 CFR Part 225, Appendix C and extending the exemption to small savings and loan holding companies.

Respectively submitted,

Fisher, Herbst + Kemble, P.C.

Fisher, Herbst & Kemble, P.C.