



October 19, 2012

Ben Bernanke Thomas J. Curry  
Chairman Comptroller  
Federal Reserve Board of Governors Office of the Comptroller of the Currency  
20th and C. Street, NW 250 E. Street, SW  
Washington, DC 20551 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 Comanche National Bank, a community bank that was chartered in 1889. Comanche National serves a rural Central Texas customer base heavily weighted with low to moderate income individuals. I have been an employee of Comanche National Bank for 33 years and have witnessed through the years how much our customers depend on us for their home loans, automobile loans and small business loans. These are folks that do not meet the underwriting criteria to qualify for funding from FNMA, FHLMC, Ally, SBA, CITI Bank, or any other government agency. They depend on their community bank.

I am very concerned 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.

I recognize the need for strong capital requirements, and an assessment of our institution and most Texas institutions will show you that we are well capitalized, and in many instances extremely well capitalized. I 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.

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Member of FDIC

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.

### **The Mark to Market of Available for Sale Securities (AFS) for Common Equity Tier 1 (CET1)**

Community banks are not involved in securities trading. The proposal will require community banks to change their Tier I 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.

### **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 Volatility 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**

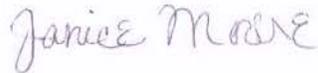
The cumulative effect of the Basel III proposal will require community banks to collect new and often granular information in order to calculate risk weights, determine daily capital formulations and obtain details involving construction loans. Regulatory burden and the costs associated with it have 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.

**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.

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,

A handwritten signature in cursive script that reads "Janice Moore".

Janice Moore, VP  
First National Bank of Santo,  
a Division of Comanche National Bank