Ben Bernanke, Chairman
Thomas J. Curry, 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 Chairman Bernanke, Comptroller Curry, and Acting Chairman Gruenberg:

I am writing today on behalf of Comanche National Bank, a rural community bank that was chartered in 1889. Comanche National serves a Central Texas customer base that includes a large number of low to moderate income individuals. They depend on us for their home loans, automobile loans, and small business loans. Many of these customers do not meet the underwriting criteria to qualify for funding from FNMA, FHLMC, Ally, SBA, CITI Bank, or any other large bank or government agency. They depend on their community bank.

The Basel III Notice of Proposed Regulations released June 7, 2012 contains many rules, which, if they are imposed upon the traditional community banks of Texas, will do untold harm to our banks, our customers and our communities. They will also accelerate consolidation of the banking industry, leaving opportunities for deposit and credit products in the hands of a few large institutions who are not concerned at all about small communities and small businesses, especially in rural areas.

I recognize the need for strong capital requirements. Our institution (and most Texas institutions) are well capitalized, and in many instances extremely well capitalized. However, a number of the Basel III proposals will increase compliance costs and lessen the availability of credit in the name of harmonizing international capital standards. Obviously, the large complex international institutions that were instrumental in causing the Great Recession deserve additional scrutiny and additional capital requirements. Community banks operating under conservative management and sensible standards, should not be penalized for the problems created by others. There must be recognition of the difference in community banks and large international banks and the risks inherent in each.

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 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.

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 re-examine 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 the mortgage business. This will drive borrowers to large, multi-state mortgage lenders that are often not located in rural areas.

Regulatory Burden
The cumulative effect of the Basel III proposals 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, cause further consolidation in the industry, and reduce credit availability in many communities.

Credit Unions
Credit unions are federally insured entities that can do anything a bank can, but pay no federal taxes. They are currently petitioning Congress to expand their commercial lending powers. It is already completely unfair that community banks have to compete with these subsidized institutions. It is my understanding that credit unions will not be subject to the proposed Basel III capital requirements, giving them yet another competitive advantage. What is the justification for not making credit unions subject to the same requirements?

In summary, 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,

Weldon Bragg.
Sr. Vice-President
Comanche National Bank