October 26, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Comanche National Bank is $280MM bank serving eight rural counties in north central Texas. A significant portion of our business is 1-4 family mortgage loans. Unlike our urban counterparts, a considerable number of our borrowers are not W-2 wage earners but instead have income streams based off crop and livestock sales which frequently means that prudent underwriting standards dictate something other than a traditional 15- or 30-year mortgage loan. Similarly most of their houses are not a standard urban house on a lot in a subdivision. These factors combined make our loans non-conforming and thus unable to be sold into the secondary market. The mortgages we originate will remain on our books for the life of the loan. Adoption of the proposed Basel III guidelines will unfairly penalize community banks like ours and will restrict credit availability in rural markets. One of our competitor banks has already abandoned the residential real estate market as a direct result of increasing regulation. Basel III will only compound the problem. Only 15- and 30-year loans may be prudent given the increased capital requirements under Basel III. In that case we would severely restrict our mortgage lending due to the impact those long term loans would have on our ability to manage our interest rate risk.

The proposed risk weights appear arbitrary in that in several instances the proposed rules require more capital to be set aside than can be lost should a loan go bad. Any risk weight proposed for a loan or other investment should be capped at what the actual risk exposure could be. For instance a 1-4 family loan structured as a 5-year balloon with a loan-to-value of less than 90% has a proposed risk weighting of 150% when the maximum possible loss is only 100% of loan value assuming no collateral value. If the collateral has any value at all the loss will be significantly less making the 150% risk weighting unnecessary. Risk weightings in excess of 100% appear to be aimed at discouraging banks from engaging in those lines of business. If that is the ultimate regulatory goal, be honest about it and lobby Congress to simply bar banks from those businesses. The proposal also excludes primary mortgage insurance from the calculations. By what logic should a product designed to reduce risk exposure not be allowed to do its job? It simply makes no sense.

The treatment of ALLL in the capital calculation is another area of the proposal that needs review. ALLL is a bank's first line of defense in loss protection. Including ALLL in Tier II capital and capping the amount of ALLL that can be included again makes no sense. All ALLL should be counted as Tier I capital and risk-weighted capital.

Another issue in the proposal that needs to be changed is the inclusion of net unrealized losses on available-for-sale debt securities in Tier I capital. Community banks, especially rural ones, have limited loan demand and invest heavily in debt securities. We currently have over half of our assets in bond investments. To satisfy accounting rules we carry most of our bonds as available-for-sale, even though we intend to hold them to maturity, which subjects them to mark-to-market adjustments. Having to include these adjustments in Tier I capital would make managing our capital levels virtually impossible. In the current rate environment we enjoy a large positive mark-to-market but when rates rise that could become a large negative very rapidly. Accepting the Basel III proposal as is will create significant unnecessary volatility in community bank capital levels and cause many banks to fail due to artificially induced false capital shortages further restricting credit availability.

In closing, Basel III is a bad idea for community banks. There are aspects of the proposal that make sense for European and American money center banks and large regional banks but virtually none of the proposal makes any sense for the thousands of community banks that keep small business and rural America moving.

Sincerely,

William K. Nix
Chairman
The Comanche National Bank