Community Bank & Trust

DAVID LACY
PRESIDENT & CEO

October 09, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal
Federal Deposit Insurance Corp.
550 17th St., NW
Washington, D. C. 20429
comments@FDIC.gov

Office of Comptroller of the Currency
250 E St., SW
Mail Stop 2-3
Washington, D. C. 20219
regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave., NW
Washington, D. C. 20551
regs.comments@federalreserve.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide my thoughts and comments on the Basel III proposals that were recently approved by the FDIC, OCC, and FRB (collectively the "banking agencies"). I am adding my views and thoughts to the current wave of opposition against the Basel III proposals, particularly as they would apply to community banks such as mine.

I am President and CEO of Community Bank and Trust, Waco, Texas which was chartered 60 years ago in 1952. Our main banking office and two branches serve the public in McLennan County, Texas and the Central Texas area. My community bank has $406,000,000 in total assets and a Trust Department managing $490,000,000 in assets.

Here are some of my thoughts. First, Basel III is designed to apply to the largest banks with international activities and should not apply to community banks. Community banks did not engage in the highly leveraged activities that eroded capital levels of large banks and contributed to our nation's economic decline. My small bank and most of those like mine operate on a "relationship" based business model designed to serve customers and our overall community. While I appreciate the need for adequate capital reserves, there needs to be an exception for most community banks from the majority of these proposed rules. Alternatively, the process should be re-started because as written, it is unacceptable to place community banks in a "one size fits all" regulatory mentality. We have grown our own capital accounts to over $47,000,000 internally and we expect to continue to hold them well above the minimum levels, even when our loan demand recovers.

Second, another major area of concern is the proposed requirement that all unrealized gains and losses in available for sale securities flow through common equity tier 1 (CET1). Because of the way the market has performed over recent years, this will create a significant amount of volatility in my bank's capital accounts. We currently have $65,000,000 in securities *Available for Sale* and $33,000,000 in municipals that we generally hold until their maturity. We shouldn't have to mark any gains or losses through our capital accounts because that makes it extremely difficult to manage our portfolios in a prudent manner for liquidity, earnings, and Interest Rate Risk. In fact, we may have to hire additional personnel and purchase software to monitor our investments. We will incur costs that don't seem appropriate for community banks.

Third, the proposal regarding residential mortgage loans will make such loans more difficult to obtain for consumers in my area and will adversely affect my bank. We generally keep our mortgage loans and we typically set relatively short terms for them due to market conditions. We have successfully and prudently originated thousands of local loans like these throughout the years. The imposition of higher risk ratings for these loans would require additional capital and therefore would result in a reduction of the availability of this type credit in our area. These loans are an important source of credit for individuals and small businesses alike. This is punitive for my bank and we would be forced to increase the cost of the credit to customers. This situation would be just another small step in stifling mortgage lending nationwide. It does not help a community bank like mine, nor the United States as we try to come out of one of the worst economic periods in our history.

As you consider the Basel III proposals, I respectfully request you consider all the other letters from bankers, concerned citizens, and even the letter some fifty plus U. S. Senators signed, relating to the unintended consequences of the proposals. My final thoughts actually mirror those of the FDIC's Thomas Hoenig, "…I would encourage the Basel Committee and the international regulatory community to step back and rethink the Basel capital standards. Basel III will not improve the condition of small and medium-sized banks."

Sincerely,

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