Alliance Bank

P. O. Box 500
Sulphur Springs, Texas 75482

Telephone: 903-885-2187
Member FDIC

EQUAL HOUSING LENDER

October 18, 2012

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
Regs.comments@federalreserve.gov
Docket R-1442

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
Regs.comments@occ.treas.gov
Docket ID OCC-2012-0008

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@FDIC.gov
RIN 3064-AD95

Re: Proposed Regulatory Capital, Implementation of BASEL III.

Heads of Agencies:

Alliance Bank is an eighty-five year old Community Bank in Northeast Texas with $560 million in total assets. Over the years, the Bank has survived a number of financial upheavals through the application of common sense and with guidance and feedback from current bank regulation and our regulators. We believe that the Implementation of Basel III will place Alliance Bank and a large portion of the U.S. banking system in jeopardy through the increase in volatility of our capital ratios and the needless loss of the trust preferred securities as a form of capital for small banks.

We encourage the agencies to remain consistent with the intent of the Collins amendment to the Dodd-Frank Act and allow for the grandfathering of existing trust preferred instruments for institutions under $15 billion in total assets. The bank recognized considerable losses in 2009 related to investments in AAA rated mortgage securities and has continued to suffer loan losses due to the general economic environment and local drought conditions; through the entire current financial crisis; the bank has requested no assistance from the TARP program or SBLF program due to our well capitalized position. Currently 16.38% of our capital is in the form of Trust Preferred Securities, the holding of which has been protected by the Dodd-Frank Act. The Basel III proposal requires a complete phase out of Trust Preferred Securities from Tier 1 capital. As a Sub-S Bank we have very little recourse in replacing this capital without Congress approving a second class of stock for Sub Chapter S banks. Adoption of Basel III will reduce the capital position of many smaller institutions which have held Trust Preferred Securities as a legal form of capital for many years.

The requirement that unrealized gains and losses in available for sale securities flow through to common tier 1 capital would force Alliance bank to classify all securities as "held to maturity" or convert the securities which make up 40 percent of our assets into cash in order to protect our capital from market and interest rate fluctuations. Designating all securities as "Held to Maturity" and/or holding all of the bank's liquid assets in the form of cash would protect the bank's capital from market price fluctuations but would also eliminate the bank's ability to manage investments for earnings while identifying and quantifying acceptable risk. The proposed changes to accounting for securities gains and losses arrive at a point in time for the financial industry when interest rates are at historic lows and our balance sheet items are trending to lower yields. The trend has also been for most banks to move toward longer bond maturities in order to maintain earnings. These fundamental balance sheet changes will eventually lead to market risk of historic proportions and an inevitable reduction in the industry's capital ratios should the market fluctuations in price be recorded in capital accounts before the actual sale of the instrument.

The proposal requires High Volatility Commercial Real Estate to be assigned a 150% risk weight. The risk weighting does not take into account Alliance Bank's reserve for loan loss calculations which identify High Volatility Real Estate Loans and track the losses associated with the loans on a historical nine quarter rolling average and adjust our reserves accordingly along with the economic stress testing considerations. The combination of proper reserve allocation along with the additional risk weighting places a double burden on the bank's capital requirements.

Indeed the Basel III proposal will require banks to collect a large amount of additional information in order to calculate risk weighted assets. Small banks such as ours are already struggling under a heavy compliance burden and the additional costs for systems and employees required to gather and maintain the additional data for reporting and compliance purposes are in our opinion not only costly but appear to be an effort to reduce the small bank's ability to compete.

As stated in our introductory paragraph Alliance Bank is a community bank which serves a function in our local markets and is not active in many of the areas which Basel III attempts to regulate however in the end the bank may be effected by the adoption of Basel III more than many of the larger institutions whose risks tolerances you are attempting to regulate.

We are concerned that the ultimate losers in the change are consumers, small businesses, local government entities and our rural communities who will face higher borrowing cost and dimished availability of both credit and bank services. If you feel that it is in the best interest of the American people to adopt these proposals then please exempt community banks from the regulations as we can assure you that the demise of the community banking system in America is not in the best interest of the American public

Sincerely;

Thomas C. Sellers

Thomas C. Sellers
President \ CEO

James M. Law
EVP

Cc: The Honorable Charles Cooper – Texas Department of Banking