D'Hanis State Bank

Since 1916

October 12, 2012

Via Electronic Submission at www.regulations.gov

Federal Deposit Insurance Corporation
Supervision Branch, Legal Division
550 17th Street NW
Washington, DC 20429.

RE: **Docket ID: FDIC-2012-0100; RIN 3064-AD95**
Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Docket ID: FDIC-2012-0102; RIN 3064-AD97
Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

Ladies and Gentlemen:

On behalf of the shareholders and directors of D'Hanis State Bank, the following is submitted in response to requests for comments on the notices of proposed rulemaking on minimum regulatory capital and the standardized approach for risk-weighted assets.

Introduction:

D'Hanis State Bank is a community bank located in the rural markets of D'Hanis and Hondo, Texas, and having total assets of $47 million and a staff of 19 people. Our Tier I capital ratio at the end of September 2012 was approximately 11.2%. We have no argument with the need to maintain our capital ratio at an acceptable level, but have grave concerns about the unintended consequences of this regulation on the nation's small banks.

It happens that only today we were informed by a compliance examiner in an informal conversation that we really need a full-time person just to insure our compliance with

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regulation already in existence. The volume, the costs, and now the increasing complexity of the regulation that has been placed upon us seems to us to be unwarranted by any real, measurable benefit that cannot be achieved some less onerous way.

We respectfully comment with observations on two provisions of the proposed regulation:

1. Inclusion of Accumulated Other Comprehensive Income, and
2. Risk-Weighting of Assets.

<u>Observation No. 1: Inclusion of Accumulated Other Comprehensive Income</u>

The proposed inclusion of Accumulated Other Comprehensive Income (AOCI) introduces a level of volatility to our capital account that is neither necessary nor productive. Currently, when interest rates are the lowest any of us can remember, we have an unrealized securities gain of approximately $90,000. In this year, and in this static rate environment, that number has fluctuated between $82,000 and $102,000. In a more normal year, and in a higher rate environment, that number would likely be a loss instead of a gain; in a nationally volatile environment, it may whipsaw back and forth. In fact, none of this has any real meaning to D'Hanis State Bank unless we are talking about liquidating the bank.

The end result would be that this "mark-to-market" requirement will inject volatility to our otherwise stable capital account, driven by market forces over which we have no control.

As a small bank, we do not have the option of effectively hedging our interest rate risk. We would, therefore, likely have to post an otherwise unnecessary reserve in our capital to protect our Tier 1 capital ratio.

We fail to see any benefit anyone will ever receive from banks our size being subjected to such a requirement. We can see only that all community banks will be further inhibited in making loans, serving our markets and stimulating the growth our nation so desperately needs.

We respectfully implore you to exempt community banks from this requirement.

<u>Observation No. 2: Risk-Weighting of Assets</u>

Our mortgage lending activities, which have historically created a substantial percentage of our loan portfolio, have been effectively eliminated by the requirement that we escrow for taxes and insurance. If we incur the costs to do so with our small numbers, the cost per loan shrinks the yield to an unacceptable level.

We do, however, still have a portfolio of loans to which this requirement would apply. Aside from our not being able to comprehend the required calculations after having had them explained to us by a CPA, the work to apply those calculations to each of our loans, and to maintain the currency of each of those calculations, is totally unsupported by the incremental value that anyone would receive from the result.

Our actual loss rate on 1-4 family loans has been 0% for the last five years – no loss at all. In fact, no one on our staff can remember a loss on one of our traditional residential mortgages. This is why we contend that there is no rational support for imposing this complex system of calculations.

We would far rather you simply set a common weight factor for all of our mortgage loans that would accomplish your purpose. We respectfully request that you consider that or some similarly less complex alternative.

As stated, we are currently unable to serve the mortgage needs of our community because of regulatory changes. We are actively seeking ways to overcome that problem, but if in addition we must assume the extra burden of these exhaustive weighting calculations, the sure-to-follow examiner scrutiny and the risk of error, then we are unlikely to ever return to residential lending.

<u>Summary:</u>

In summary, we are shocked that Basel III is being levied on all banks, regardless of their size. We submit that our bank neither caused nor participated in the lending activities that gave rise to the current state of our national economy. Community banks in many parts of the country actually provided stability when the local branches of the money center banks were in turmoil. The need to impose the same level and complexity of regulation on community banks simply does not exist.

On the other hand, the costs of complying with the proposed regulation will be far worse in proportion on community banks than on the money-center banks. As previously cited, we have 19 staff members, and already we need a full-time officer for nothing but compliance with regulation and that does not include the anticipated costs of complying with the proposed Basel III. That is a much greater percentage of our total personnel cost than would be incurred by a money-center bank to accomplish the same end. Those costs would have to be passed on to our customers if we are to achieve sufficient profitability to service whatever capital ratio we are required to maintain.

In conclusion, the imposition of Basel III on community banks places a disproportionate and highly significant burden on their cost structures and ability to serve their markets that is unaccompanied by any measurable benefit that could have prevented the previous financial crisis or would be likely to prevent any in the future. Community bank capital shortage was not the problem.

We again respectfully implore you to exempt community banks from the imposition of Basel III.

Very sincerely,

D'HANIS STATE BANK

By:

Richard K. Yowell
Chairman and CEO