COMMERCIAL NATIONAL BANK

August 10, 2012

Office of the Comptroller of the Currency
250 East Street, S.W.
Mail Stop 2-3
Washington, DC 20219

RE: **Docket ID OCC-2012-0008; RIN 1557-AD46**
Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action
Docket ID OCC-2012-0009; RIN 1557-AD46
Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements.

To Whom It May Concern:

We are writing in response to the requests for comments in the notices of proposed rulemaking (NPR) on minimum regulatory capital and the standardized approach for risk-weighted assets. Commercial National Bank is a small community bank with approximately $200,000,000 in assets.

After reviewing the proposed Basel III rules, we wished to voice our concerns about the impact these rules will have on community banks. This regulation assumes that all banks are the same and that all are competing on the global scale.

As a small community bank, our main focus is the long-term economic well-being of the local population that we serve. We serve the needs of Bowie County, Texas and Miller County, Arkansas. We have six full-service locations, all located in the two counties, with 1 branch in a low income area, 4 branches in middle income areas and 1 branch in an upper income area. We are the only bank to have a location in Fouke, Arkansas. In 2011, 92.73% of our total loan numbers and 93.38% of our total deposit numbers were in our assessment area. We do not operate in the global market. We are committed to helping the consumers and the small businesses that provide employment, products and services for our community. The new capital proposals and the resulting regulatory burden will cause us to increase our staff, resulting in lower income (hindering capital growth) and higher costs to the public in an already stressful economy.

We understand and appreciate the need for adequate capital. Our concern is not based on maintaining adequate levels of capital, a concept that we are committed to do, but the process and unintended consequences of instituting this complex set of new rules.

We feel that this complex and cumbersome proposal threatens our very existence and the existence of all community banks. We ask that you reconsider and exempt community banks from these draconian proposals and continue to measure capital using the present methodology.

Concerns

As management read through the proposals, several challenges were immediately identified and we would please appreciate you considering our concerns regarding the proposal.

- **Additional Compliance Costs**: Over the past few years we have been inundated with an increasing number of regulations and sweeping changes to the existing regulations. Very few of the significant number of issues generated involve safety and soundness issues but are time-consuming and expensive changes. The number of changes and additions require the complete dedication of several employees which is a financial challenge for us.

  In addition, the new proposals call for very complex collection reporting of information on various asset categories on an ongoing basis to properly determine risk weightings. This is going to require additional employees which will be even more costs to us. This will require us to increases our fees which will be passed on to the consumers and businesses which will in turn hurt them.

- **Accumulated Other Comprehensive Income (AOCI).** The inclusion of unrealized gains and losses in the Available for Sale (AFS) portion of the securities portfolio in Tier 1 common equity capital is another very concerning area.

  The historically low interest rate environment has created issues for us and other community banks. There is very little room for downward movement, and when rates move upward, as they no doubt will at some point, we will be faced with potentially significant unrealized losses in the securities portfolio. While we have positioned ourselves with shorter-term maturities, we will still have some potential losses. This new calculation will cause significant volatility in the capital calculations and could potentially create scenarios in which we, as a well-capitalized bank, could face severe sanctions due solely to market rate movements.

Furthermore, the "mark-to-market" requirement will require us to hold more capital to compensate the inevitable swings in interest rate risk and hinder our growth and lending opportunities.

Large institutions have the ability to efficiently hedge interest rate risk in their securities portfolios. We and other small community banks do not have that ability.

In the past we have been an investor in issuances of our local government issues. We will not be investing in these issuances if these regulations are enacted due to the longer nature of the securities and the fear of rate-driven capital degradation. As the other local community banks will undoubtedly feel this way, the regulation will ultimately harm development on infrastructure development at the state and local level as well as harm to projects that create local jobs.

This one provision has the potential to have a devastating impact not only on us but on the community and customers we serve.

Also, we are a Subchapter S corporation and the dividend stream is used to pay the taxes. This "Capital Buffer" along with the other changes could impair our ability to pay the taxes to our shareholder. This could potentially affect the owner's ability to maintain ownership of the bank over time. We would not be the only community bank that would eventually go away.

- **Risk-Weightings.** As talked about above, the challenge to appropriately assign proper risk-weightings to the various assets will be a costly and continuing problem. It will require additional staff and costly software. It will also impact our ability to serve the consumers and cause us to potentially drop products that our community relies on.

  The majority of our residential mortgages are balloon notes in order to best position our interest rate risk, credit risk, and protect our earnings and capital in the event interest rates begin to rise. It also helps us to keep a close watch on our credits as we look at the financial position of the borrowers as they renew the loans. This enables us to detect a potential negative impact on our portfolio. We also make loans with a loan-to-value of 90% for consumers who qualify, which is a benefit for the consumer. For consumers who prefer a full term loan, we also offer secondary market loans. The enactment of this regulation would cause us to evaluate whether we would be able to offer mortgage loans. Also, the secondary market is not interested in rural homestead loans where the properties are served by local volunteer fire departments and the homes have septic tanks and well water. The mega banks eliminated their rural branches when they came to Texas and are not likely to re-engage those areas. The impact on the local economy should not be underestimated or ignored. There is a large rural community in the two counties that we serve. These customers will be negatively impacted.

The introduction of the High Volatility Commercial Real Estate with a 150% risk weighting and limited exemptions will also limit our willingness to make these types of loans.

- **Allowance for loan and lease loss.** The proposal appears to ignore the existence of the Allowance for Loan and Lease Losses in providing for a buffer for both identifiable and anticipated exposure in the loan portfolio. If additional weights are applied to "problem" loans, does this negate the necessity of specific reserve allocations?

As we have outlined above, the cost to implement this regulation will be excessive and have a huge negative impact on our capital, our income, our customers and our community. We are extremely concerned that it could be the end for all community banks as a whole. Also, given the current economy, the impact across the country would be felt in loss of income, infrastructure, and jobs.

We have effectively served our community for nearly 50 years. We hear feedback from our customers about how they appreciate a hometown bank with local bankers handling their business. Please allow us to continue to furnish them with exceptional customer service.

We ask that you please exempt community banks from these burdensome, complex and counterproductive capital rules.

Thank you,

Dennis A. Huffman
President