BENCHMARK
BANK

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
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Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

October 17, 2012

Re: Basel III Proposals and Benchmark Bank's Comments (Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010; Basel III Docket No. R-1442; Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97)

Ladies and Gentlemen:

Benchmark Bank is a community bank with approximately $360 million in assets. We have three branches in Dallas and a branch opening soon in Austin. We also have mortgage operations that service Texas and other states. We are taking this opportunity to briefly express our concerns about proposed changes in financial institution regulations as it relates to Basel III.

While we are one of the strongest community banks in Texas, many of the proposed changes would adversely affect us, our customers, and our employees.

Specifically, the proposed changes to the treatment of mortgage servicing assets and residential mortgages.

Mortgage Servicing Assets

Currently, our percentage of our regulatory capital consisting of mortgage servicing assets is relatively small. However, given recent trends and lawsuits filed against a major purchaser of mortgages, there is a real risk that we will need to retain the servicing of all mortgages we originate. If this event happens and the proposed changes to the risk weightings of mortgage servicing assets takes full effect (i.e. only 10% of MSAs counted toward capital as proposed), we have the potential to need to raise approximately $20 million additional capital to stay well capitalized.

This additional capital represents a 50% increase in capital. It is no mystery that raising capital in this current environment is not an easy prospect for a community bank of our size.

The bottom line is we may need to sell or discontinue these services. As a result, our customers will be harmed, employees will lose jobs, and our financial position will deteriorate.

We also believe the unintended consequences of all of the mortgage proposals in Basel III is to continue to drive the business away from community banks to the large, multistate banks and mortgage lenders. The state of our banking system now is due in large part to activities concentrated into a few hands.

Residential Mortgages

Our retail mortgage employees provide mortgages in several communities around the state of Texas and our correspondent mortgage business facilitates lending for small banks and institutions across the country.

One of the proposed changes would increase risk weightings by up to 200% for both new and existing mortgages for the purposes of calculating regulatory capital. These changes occur quickly (as soon as 2013) and, while they mirror international rule changes targeted at large multinational banks, they offer no relief for smaller, significantly less complex banks. The most likely result of these particular Basel III proposals is that we will need to quickly raise substantial additional capital in a difficult environment. In addition, our regulatory burden will continue to grow disproportionally relative to our size. As a consequence, our ability to make mortgages available to customers in many of the markets we currently serve may be limited or eliminated.

Several similar themes arise: 1) our customers will be harmed; 2) employees will lose jobs; 3) our financial position will deteriorate; and 4) Basel III proposals will play into the hands of the large, multistate organizations to the detriment of small community banks.

Proposed Actions

While we believe there should be sweeping changes or outright exemptions for smaller banks across the Basel III framework, we think at a minimum the following actions should be taken for community banks (under $1 billion in assets):

- Existing mortgage servicing assets should be grandfathered. It is simply unfair to penalize banks with long standing mortgage servicing assets because of change in position of the Basel committee.

- Agencies should allow banks to include 100% of the fair market value of readily marketable mortgage servicing assets.
- There should be no deduction from capital for mortgage servicing rights since they are marked to market monthly.
- Under the proposal, prudently underwritten and performing mortgages may be subject to a substantial increase in risk weight. Existing mortgages should not be subject to retroactive application of the proposed increase in risk weightings.
- Longer phase-in times should be allowed so that unnecessary expenditures caused by hasty adoption of new policies don't overly burden small banks with limited resources.

We appreciate your consideration of our concerns and proposed actions. We believe that the base of a strong financial system starts with the smaller community banks. Many of the complexities of Basel III proposals are not applicable to banks of our small size. Please strongly consider exceptions or exemptions for smaller banks across all aspects of Basel III. We believe the American people will support those exceptions and directly benefit as our system heals itself.

Sincerely,

Michael A. Barnett

CEO and Chairman of the Board

Benchmark Bank