ROSCOE
STATE BANK
ROSCOE / SWEETWATER / BASTROP
Member FDIC

October 17, 2012

Robert E. Feldman
Executive Secretary Attention: Comment/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N. W.
Washington, D.C. 20429

Re: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, The Office of the Comptroller of the Currency, and The Federal Deposit Insurance Corporation. The Roscoe State Bank, founded in 1906, is a Community Bank domiciled in Nolan County, Texas. Located in west Texas, the bank has total assets of $175,000,000 and has proudly served the citizens of Nolan County throughout our existence. We have 2 offices in Nolan County which has a population of approximately 15,000 people. We also have an office in Bastrop, Texas.

The Basel III Proposal is an extremely complex set of rules designed for much larger banking organizations with a completely different risk profile than the Roscoe State Bank. Community banks in general, and the Roscoe State Bank specifically, did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. We operate on a relationship based business model specifically designed to serve our customers on a long term basis. We are not involved in Investment Banking or high risk trading activities. In other words, we are a traditional community bank.

This business model has proven successful for our organization and our existing rules and regulations governing our capital requirements have been more than adequate throughout our history. Requiring community bank's capital to be subject to the complex rules and requirements under Basel III will negatively impact our successful business model which will, in turn, have a profound negative impact on our ability to make loans and continue successfully serving our customers.

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The inclusion of accumulated other comprehensive income (AOCI) in our capital computation will result in increased volatility in regulatory capital balances and could rapidly deplete our capital level under certain economic conditions. AOCI represents the unrealized gains or losses on our government backed bonds and municipal securities held in our investment portfolio. Currently, we have a sizable unrealized gain in our securities portfolio due to the increasing bond prices we have seen for several years. As we are now in a historic low interest rate environment, when rates do move higher, this will likely have a significant negative impact on the value of our securities given the large amount of bonds we own relative to our assets and capital. For instance, while our tier one capital to average assets (leverage ratio) under the Basel III proposal totals is 9.6% as of June 30, 2012, if rates move up 200 basis points our leverage ratio would project to fall to 5.7%. A 300 basis point upward move would have more dramatic results wiping out all of our capital under Basel III. Thus, our regulatory capital under Basel III can be substantially reduced by elements totally outside of our control at the same time that our profitability and asset quality remains strong. Granted, these projections are based on an upward move in rates on a single day which is highly unlikely. But the disparate impact the Basel III proposal would have compared to our existing regulatory capital requirement is profound and will create significant volatility which will limit our ability to continue serving our customer base.

We are a captively held Sub Chapter S bank whose shareholders rely on bank dividends to pay their pro rata share of the taxes from the bank earnings. With only a 200 basis points upward move in rates, examiners could very well take the position under Basel III to limit or restrict our dividend payout due solely to the impact on our capital from rates moving up 200 basis points even if the bank continues to be profitable with strong asset quality during this timeframe. Under our existing capital regulatory guidelines, we have always maintained a stable and growing level of capital that has never been criticized by any regulatory authority. This would all change under Basel III which will create significant volatility in our capital account due to factors beyond our control.

Being a small, rural bank we do not have the staff or expertise to manage or hedge our interest rate risk. All of our investment securities are either government mortgage backed securities or high quality municipal bonds that meet our conservative underwriting guidelines. While I agree that the value of our investment portfolio would decline in a rapidly increasing rate environment, any negative impact on our earnings would be manageable as they are largely driven by our fixed rate investment portfolio and loan income. Only if we elected to sell such securities, which we rarely ever do, would an actual "loss" be realized. Therefore, with our long history of profitable operations and strong asset quality, there could easily be a scenario where our capital under Basel III could fall significantly while our earnings and financial condition of the bank remain strong. In this scenario, does it really make sense to reflect a significant decline in capital, from factors we don't control, that would create hardships for the Bank and our customers?

We respectfully request that there be an exemption from Basel III for community banks across America who share our traditional business model. Our existing set of regulatory of capital standards is tried and tested in multiple rate environments over the years. They have performed well and do not need to be changed. The level and stability of community bank capital levels have served our industry well and was not a cause of the financial crisis. Thank you for your consideration and please do not hesitate to contact me if further information is needed or if have any questions.

Sincerely,

John W. Jay
President/CEO