



We're putting "Friendly" back into banking.

October 9, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals¹ 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. As a small community bank CEO, I am very concerned about the effects that the Basel III proposal will have on my bank and my community. If adopted as written, this will effectively slow down certain types of lending in rural areas and threaten the existence of small banks in our country as we know it. Small community banks are the lifeblood of rural communities and a one size fits all approach for Basel III will hurt our nation's economy.

Here is an example of just one consequence of the Basel III plan. Under the current Basel I rules, which all banks now operate, when calculating Risk Based Capital, 1-4 residential mortgage loans are risk weighted at 50% of the loan balance. Under the new rule, if these loans have a balloon payment, they are now risk weighted up to 200%. Let me explain how this negatively affects small banks and the communities that they serve. Tejas Bank, like hundreds of banks in this country, is not large enough to offer 30 year fixed rate mortgages due to the interest rate risk. We are currently in a historically low interest rate environment and cannot afford to be locked into these low rates for 30 year periods. (I believe that this type of lending is

¹ The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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what caused the Savings and Loan disaster of the 1980's.) So, in an effort to control interest rate risks for the health of the bank, the loans are "ballooned" every 5 years with 20 year amortizations, to allow the loans to be re-priced to current market rates. The new Basel III proposals will consider a balloon loan a greater risk for a bank, and automatically slot this type of loan as a Category II higher risk loan. Now, the same loan that has always been categorized a 50% risk weighting will be categorized up to 200% in some cases.

This one portion of the proposal will significantly reduce many banks Risk Based Capital levels without the Bank making a single bad loan. If Basel III is not amended to remove this provision of the plan, Tejas Bank will probably be forced to stop making mortgage loans in Monahans and Iraan, Texas. Many borrowers in these small communities cannot qualify for a loan with a mortgage company, so this will drastically reduce these small communities citizens ability to get a home loan. I do not believe this is the regulatory intent, but this is one of the consequences. If accepted as written, The Basel III proposal will push small banks like ours into a corner and force us to make a difficult decision. The banks will be forced to either make 30 year fixed rate loans that will cause undue interest rate risk for the bank, or no longer make mortgage loans which will cause loss in income to the bank and loss of a local lender for small communities. It is hard to find the positive in this option. I respectfully request that you reconsider this portion of the Basel III proposal, and further consider if this proposal should even apply to banks less than \$500 million in assets. Thank you for your consideration.

Sincerely,



Todd Hunt
CEO
Tejas Bank