

# DALHART FEDERAL

SAVINGS & LOAN ASSOCIATION, SSB

October 17, 2012

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

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

Re: Basel III Capital Proposals  
Basel III Docket No. 1442 – Federal Reserve  
Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen:

We appreciate the opportunity to provide comment on the Basel III proposals approved by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

We are in support of taking the steps necessary, which may include increasing capital requirements, to insure that the banking industry can weather the storms that may come our way in the future. However, we do have concerns about the proposals and how they may affect our institution.

Dalhart Federal, formerly a federal thrift regulated by the Office of Thrift Supervision, and organized in 1934, converted to a Texas State Savings Bank effective July 1, 2011. Our home office is in Dalhart and we operate a branch office in Dumas. We have approximately \$110 million in assets and are a well-capitalized community bank. We are primarily a residential mortgage lender who portfolios our loans. We serve many individuals of all means by providing home loans to people living in our trade territory. We are dedicated to the communities we serve and we try to take a leadership role in improving those communities. We also promote community growth by providing



residential subdivision development in our communities through our real estate investment subsidiary.

Like most other community banks in our country, we want to make sure we are able to continue serving our communities in the way we have in the past. We want to make sure the new rules do not reduce the ability of our community banks to provide that. We have the following specific concerns about the Basel III proposed rules:

**1. Requirement that gains and losses on available for sale securities must flow through to regulatory capital.**

Dalhart Federal Savings has \$2,834,172 in AFS securities. How should our bank deal with this proposal, especially when interest rates rise again? Will we have to create an additional capital buffer as a cushion during value fluctuations? **If so, we are taking resources from customer needs and bank growth.** Should we limit our investments in longer duration assets? How will this affect local governments and the housing markets? This proposal could cause a number of banks to sell all or part of their AFS portfolios. Have federal regulators considered what impact this will have on the markets for those securities? We are concerned about how this proposal might impact our asset liability function and our liquidity and contingency funding plans.

We are a community bank and, as such, should not be thrown into the “mark-to-market” frenzy that has consumed other segments of the financial services industry.

The most likely result of this proposal **will be an increase in employee time to monitor our AFS portfolio.** This may also require us to **purchase software to stay in compliance.** Both would lead to less time and service for our customers.

**2. Increased risk weighting for residential mortgage loans.**

This is the provision that could affect us the greatest. As I said, our institution has approximately \$110 million in assets with approximately \$62.24 million in mortgage assets. Our employees provide mortgages in all communities in our trade territory.

The most likely result of this proposal is that it will cause us to increase capital. Our earnings will also be impaired. Our regulatory burden will increase. **Most importantly, it will limit the availability of mortgages in the communities where we offer loans.**

It also appears that the proposal will play into the hands of the large, multistate lenders to the detriment of community banks.

**Rural borrowers in Texas, due to recent federal laws, are already confronting a market in which banks are making fewer mortgage loans. This proposal will only make it worse.**



### 3. Increase in regulatory burden.

Our bank has 30 employees. We are already laboring in an environment involving increased regulatory scrutiny in compliance exams and the new burdens being placed on us by the Dodd-Frank Act. **Our compliance costs alone have increased significantly in the last 10 years.**

It appears that as proposed, Basel III will require us to change our internal reporting systems and provide additional employee training. More than likely we will have to hire additional employees. The complexity of the data requests probably means that we will also have to install new software systems and/or look for third parties to provide them. **None of these requirements will allow us to help our customers in our community. The compliance costs will pull money out of capital and earnings rather than help our borrowers.**

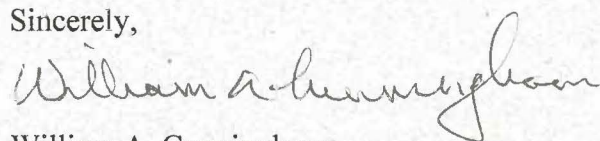
The increasing cost of compliance for community banks is leading to more consolidation in our industry. Basel III, as proposed, will only accelerate this trend.

Federal regulators may not be troubled by a country that has only a handful of banks. From our perspective, community banks still serve a vital function in our economy. It would be a shame if these new international capital requirements help lead to their demise.

As I have tried to point out, the proposal as it is currently written will most probably greatly impact our institution. The cumulative effect of each of the proposals will have a severe impact on most of the community banks in this country. We strongly urge you to consider this impact and to consider an exemption for most of our community banks from most of these rules. Our nation's community banks need to be able to continue serving our communities and helping to strengthen our local economies.

Thank you for your consideration.

Sincerely,



William A. Cunningham  
President/CEO

cc: Senator John Cornyn  
Senator Kay Bailey Hutchison  
Congressman William M. Thornberry