October 10, 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 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.
HomeTown Bank, N.A., in Galveston, Texas, has seen a large deposit growth since the arrival of Hurricane Ike in September of 2008. In fact, our investment portfolio has grown from 26% of total assets on 12/31/2008, to 36.5% on 9/30/12. More importantly, the investment portfolio has grown from $74.4 million to $163 million. We currently are blessed with a $6.2 million gain in the portfolio, which equates to a $4.1 million addition to capital. Our Tier 1 Capital (which does not include FAS 115) as of 9/30/12 is 8.86%.
Like most community banks, we buy securities with the intention of keeping them to maturity. We may occasionally sell a security, but the intent is to hold. Since FAS 115 became part of the formula, we have elected to place our entire portfolio into Available for Sale.

My number one concern with Basel III is having to mark-to-market for Tier I capital. Based on 9/30/12 investment portfolio shock reports, a 300 bp increase will result in a portfolio loss of $5.395 million. Reducing the loss by the 34% tax rate (which may increase in future years), my Tier 1 Capital will be reduced to $35.6 million, resulting in a Tier 1 ratio of 8.06%. That is a 9% drop in Tier 1 Capital.

The current Basel format has it right. If a community bank is not actively trading securities (and most do not), don't punish them for market fluctuations. Including mark-to-market in Basel III will force us to change our investment strategy, especially mortgage-backed securities, and force us into less volatile short-term treasuries. Both net interest margins and net earnings will suffer, resulting in less money to lend in our communities.

Another problem is complexity. When I hear regulators and mega-bank representatives say the proposed ruling is too difficult to understand, I can only imagine the difficulty the small community banks will have with the formula.

Basel III was intended for the large, multi-national banks. One size does not fit all unless you want the net result to be a total of thirty banks or less in this country. God help us if that is where we are headed.

Sincerely,

Jimmy Rasmussen
President and CEO
HomeTown Bank, N.A.
Galveston, Texas