OVERTON FINANCIAL CORPORATION

October 4, 2012

Via Electronic Mail (original to follow via postal mail)

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: Regulatory Capital Rules
FDIC RIN 3064-AD95 (Basel III NPR)
FDIC RIN 3064-AD96 (Standardized Approach NPR)

Dear Executive Secretary Feldman:

I am writing to express my concerns regarding the application of the Basel III guidelines to community banks. Within our holding company, we operate three separate and individually chartered community banks with assets approximating $1.5 billion, $105 million, and $45 million, respectively. Each of these banks would be affected dramatically by mandated adherence to the Basel III provisions, and each would be impacted disproportionately from the nation's largest banks and in a manner which, in our opinion, deviates from the intended scope of Basel III. Therefore, it is our suggestion that these banks, and any community bank with less than $10 billion in total assets, be exempted from the application of Basel III.

While we certainly applaud and understand the efforts of the federal financial regulators to seek higher minimum capital levels for our nation's large, systemically risky institutions, application of the Basel III capital accord in a standardized fashion to all U.S. banks strikes us as nonsensical. The new capital rules, as proposed, are highly complex, and many community banks simply do not possess the manpower or resources to timely or properly determine risk weightings and collect and report the data on an ongoing basis. The fact that the comment period on proposed rulemaking was extended is, itself, strong evidence of the confusion over and cumbersome nature of the proposal.

Application of the Basel III standards could introduce significant volatility into banks' capital calculations. For example, inclusion of unrealized gains and losses from a bank's available-for-sale securities in Tier 1 common equity capital is particularly troubling and could have severe unintended consequences for community banks. Community banks simply do not have the ability to effectively hedge interest rate risk in their securities portfolio to the extent that the large banks do. Thus, when interest rates increase, as they inevitably will at some point, it is likely that many community banks will experience unrealized losses in their securities portfolios, which, in some cases, could be significant. This could potentially create a situation in which a formerly well-capitalized bank could face severe sanctions due solely to market rate movements.

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Given the recent barrage of mortgage regulations, many banks are already reconsidering their desire to make mortgage loans to their customers, and some have stopped the practice altogether. Application of Basel III to community banks could very well exacerbate this trend. Higher capital costs imposed by the proposed risk-weightings of residential and commercial real estate loans, as well as home equity loans, will create a disincentive to make these loans. This is especially true with respect to adjustable rate and "in house" loan products which have traditionally been a key component of the community bank business model. Consequently, access to funds for small businesses and consumers will be curtailed, a result which goes against the stated economic interests of the government and our nation as a whole.

Community banks, especially in Texas, understand and appreciate the need for adequate capital, and it is our belief that the prompt corrective action guidelines already in place provide sufficient regulation as to appropriate capitalization levels for community banks. The existing regulatory framework is, in our opinion, a reasonable one, and has provided for adequate community bank capitalization, protection of the Deposit Insurance Fund, and a reasonable return to our stockholders.

Finally, the debate concerning Basel III also points to a larger issue for our industry, that being our need for a bifurcated regulatory system. It has never been more apparent that the nation's largest, systemically risky banks and community banks operate under two very dissimilar business models. Yet, in many ways, they continue to be regulated through one, uniform set of standards. Admittedly, the application of Basel III to our nation's largest banks is proper, especially given their more complex risk profiles and sophisticated, if not exotic, banking activities. However, these activities are much different than the traditional lending and depository practices of community banks, and, thus, should be treated and regulated as such.

Thank you for your consideration of these matters, and for your service to our industry.

Sincerely,

Rogers Pope, Jr.
Vice Chairman

Cc: The Honorable Marty Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429

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