INDUSTRY STATE BANK

Traditional banking– that's here to stay!

MEMBER FDIC

To: The Federal Deposit Insurance Corporation

From: Industry State Bank
16886 Fordtran Blvd.
P.O. Box 66
Industry Texas, 78944

Date: September 20, 2012

Re: Basel III Negative Effects on Community Banks

Industry State Bank (ISB) would like to express its concern with the proposed Basel III requirements and request that community banks continue to operate under Basel I capital requirements.

Basel III was originally conceived to apply only to the largest, systemically important and internationally active banks. Requiring community banks to adhere to the "Too Big to Fail" bank standards would decrease a small banks lending capacity, which will result in unintended consequences to the communities they serve.

The proposed increase in risk weights for residential mortgages would reduce a community banks concentration in this type of credit. It will force community banks to compute complex risk weights and limit their loan offerings to meet the requirements of arbitrarily risk-weighted buckets. This restrictive mortgage rule will negatively impact ISB and all community banks.

Furthermore, including accumulated other comprehensive income (AOCI) as regulatory capital will drastically change the capital structure for community banks. The proposal to recognize unrealized gains and losses to available for sale (AFS) securities would only add considerable volatility to the required capital ratios. This will result in community banks basing their capital planning on unrealistic ratios that are inconsistent with the institutions actual financial strength. These unrealized gains and losses result only from fluctuations in the interest rates rather than actual changes in the credit risk. Having a community bank base capital planning on ratios that will typically result in no effect to the financial institution would be detrimental to the financial organization and its community. The results due to interest fluctuations will force community banks to keep more credit in highly liquid assets, thus taking credit away from local individuals. In addition, it will inevitably discourage local community banks from investing in any long term community municipalities because of the inherent inaccuracy of the capital ratios.

Basel III will be a regulatory burden that may ultimately prove beneficial to the "Too Big to Fail" banks by ending the community bank industry. The costs to community banks to implement such comprehensive regulatory policies and the decrease in income, resulting from heightened capital requirements, would leave "Too Big to Fail" banks with a substantial competitive advantage over community banks.

Applying such stringent regulations on community banks in a time of economic uncertainty would prove devastating to many local communities. That is why ISB is requesting an exemption from Basel III and asks to continue to follow the Basel I requirements.

Sincerely

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