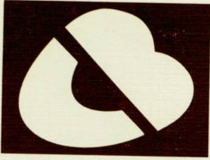

COMMUNITY NATIONAL BANK

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THOMAS C. WOOTEN
Vice Chairman & CIO

October 18, 2012

The Honorable Thomas J. Curry, Comptroller
Office of Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219

RE: **Docket ID OCC-2012-0008; RIN 1557-AD46**
Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provision, and Prompt corrective Action
Docket ID OCC-2012-0009; RIN 1557-AD46
Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

To Whom It May Concern:

Thank you for the opportunity to comment in response to the requests for comments in the notices of proposed rulemaking regarding the Basel III Regulatory Capital Rules.

We are a community bank of approximate $175,000,000 in total assets serving the residents of Medina County in Southwest Texas. While we can understand and appreciate the need for adequate capital in the banking industry, we do not believe that community banks such as ours should be painted with the same regulatory brush as large, systemically important financial institutions. Both our business model and our respective abilities to absorb and deal with the ever-accelerating barrage of regulatory burden are dramatically different. We believe that community banks such are ours should be exempted from these proposals.

Some of our specific concerns:

1) The inclusion of unrealized gains and losses in the available for sale (AFS) portion of the securities portfolio in Tier 1 Common Equity Capital:

In our opinion, this is the most counter-productive and ill-considered proposal in all of Basel III. The effect of this proposal will be to introduce an artificial and unwarranted level of capital volatility to the measurement of regulatory capital. Our bank employs primarily a "buy and hold" strategy with regard to the management of our securities portfolio whereby we hold the vast majority of the securities we own to their respective maturity or call dates with relatively few sales. We have both the intent and the capacity to hold the securities till they mature, even though we carry them in the "available for sale" category. We collect the contractual interest

payments due over the life of the security, exactly as we do with the individual loans in our loan portfolio. Therefore, the proposed "mark to market" accounting treatment is not appropriate for a community bank such as ours. Our projections indicate that in a rising interest rate scenario, with rates increasing only 3%, the effect of this proposal will be a reduction in our bank's Tier-1 Capital Level of approximately 11.0%, due to the inclusion of the unrealized securities portfolio loss or depreciation in the capital metric. An even higher rate increase, of course, will exacerbate the artificial capital decline even further.

Unintended Consequences:

A) With our capital position artificially constrained, yet still subject to regulatory scrutiny and impositions, we will be unable to grow our balance sheet short of raising additional capital. This means that we will, of necessity, be forced to curtail our lending to our consumer, small business, and agricultural customers. The consumer and small business person will suffer because of this short-sighted proposal.

B) Due to the fact that the municipal bonds which my bank invests in are issued in typically longer maturities by the local school districts and towns which sell these bonds to fund their borrowing needs, and because these longer-maturity bonds are subject to more price volatility and thus higher depreciation in any given rising interest rate scenario, banks like ours will likely be forced to purchase far fewer longer-maturity municipal bonds than we currently buy, in order to avoid the increased depreciation risk and thus increased capital volatility which owning such bonds would put us at risk of, given the probability of future market interest rate increases. This will drive up the cost of borrowing for local school districts, towns, and other municipalities, especially the smaller ones. Our school kids will suffer due to this short-sighted proposal.

2. Compliance and Adoption Costs:

Community Banks everywhere are being overwhelmed with the cost of complying with the volume and complexity of an ever-increasing level of regulatory burden.
Unintended Consequences:

A) The cost of complying with this complex and cumbersome proposal will drive many smaller community banks such as ours out of business by forcing them to merge with larger banks which can better afford the cost of compliance. The result: lessened financial institution competition, an acceleration of the concentration of banking industry assets in the largest banks, and fewer consumer choices. The consumer and Main Street will suffer from the enactment of these proposals.

3. Risk Weightings:

The proposed increased risk weightings for real estate loans in general, and 1-4 family mortgage loans in particular will have a chilling effect on mortgage lending by community banks in smaller and rural communities. Our bank keeps many of the 1-4 family mortgage loans which we

originate "in-house". (Not sold in the secondary market.) We keep all of our other real estate loans "in-house". This proposal will cause many smaller community banks to entirely discontinue home mortgage lending in the communities which they serve.

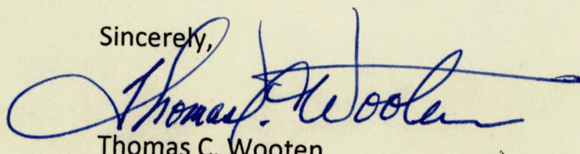
Unintended Consequences:

A) Since community banks actually know their customers, we originate many non-standard home mortgage loans which, for one reason or another don't fit the large mortgage lenders' underwriting standards. These proposals, if enacted, will cause many community banks to exit the mortgage lending business to the result that thousands of residents of rural areas and small communities will be unable to obtain mortgage financing for their homes. The consumer will suffer from the enactment of these proposals.

B) The introduction of a "high volatility commercial real estate" risk weighting of 150% will cause community banks to be much less willing to originate these types of loans in the communities they serve. The result: 1) Higher borrowing costs for all businesses, particularly small businesses. 2) Reduction in capital access for businesses, resulting in less robust community growth and fewer jobs created, with a potentially chilling effect on our local economies. Main street communities and businesses will suffer if this proposal is enacted.

In conclusion, these proposals are not appropriate for the community bank model. Further, they will disadvantage consumers, hurt our local communities, and raise borrowing costs for both consumers and small businesses. These proposals are counter-productive and should not be enacted. Thank you for the opportunity to comment.

Sincerely,



Thomas C. Wooten
CIO/Vice Chairman

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