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National
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Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
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Ladies & Gentlemen:

Woodhaven National Bank is a $400 million community bank in North Texas serving urban, suburban and rural communities in Tarrant and Wise counties as wel as surrounding counties. We are considered a commercial bank with the majority of our lending in the commercial real estate market. The Bank is a Certified and Preferred SBA lender, hence making small businesses an important part of our loan portfolio.

The Basel III proposals, as they are written, contain provisions that will negatively impact our capital levels. We will be forced to make critical balance sheet decisions concerning the types of loans we will be able to offer our customers due to the decreased capital available. The following is a recap of each of those provisions and the anticipated impact on our Bank and our communities.

Accumulated Other Comprehensive Income
The proposal requires that all unrealized gains and losses on Available for Sale (AFS) securities flow through Common Equity Capital and by default the Tier I and Total Capital calculations. Community bank gains and losses in its AFS portfolio occur primarily because of fluctuations in interest rates and **not** credit risk. We are not a trading bank and normally maintain our securities until maturity unless they called or pre-funded, of which we have no control. As of June 30, 2012, the Bank held $53 million in its AFS portfolio. Based on our most recent quarterly interest rate shock analysis, if rates were to increase 300 basis points, our AFS portfolio and our capital would

decrease $3 million or 7.5% of capital. This directly correlates to approximately $35 million in loans that will no longer be available in our communities.

The substantial loss in our portfolio created by fluctuations in interest rates is due to the large portion of government agencies held by our Bank. To offset the risk created by these proposed rules, we would be forced to liquidate the majority of these instruments which community banks have used for decades to manage their interest rate risk. The consequences of community banks selling off this portion of their securities portfolio will unbelievably further damage already unstable markets.

Based on the negative impact to capital and the instability created in the markets, we urge you to continue to exclude AFS mark-to-market adjustments from regulatory capital.

High Risk 1-4 Family Real Estate
The proposal assigns risk weights for residential mortgages based on whether they are "traditional" 30-year mortgages – Category 1 or "riskier" mortgages – Category 2. There are three primary issues with this section of the Notice of Proposed Rulemaking (NPR). First, the proposal presumes that any credit that is not a 30-year mortgage is riskier. As proposed, any balloon payment automatically places the credit into a Category 2 risk-weighting which increases the risk-weighting assignment from 50% to 100%. There is no default data that supports the assumption that a 30-year term vs. a shorter term with a balloon payment is a less risky credit. In addition, the NPR does not allow existing credits to be grandfathered. Accordingly, three and five-year mortgage loans currently on our books will automatically be reassessed at a minimum risk-weighting of 100%. Since we are not a mortgage bank, the majority of our 1-4 Family Real Estate Loans do have balloon payment provisions.

Second, the NPR does not take into consideration Private Mortgage Insurance (PMI) when considering the LTV. PMI insurance protects Banks for those credits with higher LTV ratios. This economic crisis has proven without a doubt that PMI insurance significantly reduces losses due to collateral values. PMI insurance should be taken into consideration when calculating LTV for purposes of assigning a risk-weighting – there is no valid reason not to consider this factor.

Finally, to automatically consider all junior liens at a 100% risk-weighting regardless of any other factors is short-sighted. LTV should be considered when determining the risk-weighting of these assets. Why would a junior lien that along with the first lien creates a 40% LTV be required to carry a 100% risk weighting?

As of January 1, 2015 these credits will cause our capital to be reduced, therefore, reducing the amount of loans we can make in our communities. Reducing these types of loans will not only increase the volatility of our interest rate risk but reduce our income capability producing a negative effect on capital. In addition, if the balloon payment requirement remains in place, we will discontinue offering these types of credits. We offer these credits because for whatever reason our borrower does not qualify for a "conforming" credit that can be sold on the secondary market. The unintended consequences will be that the market will lose a substantial population of potential homebuyers that will no longer be eligible to buy homes.

High Volatility Commercial Real Estate

The proposal defines High Volatility Commercial Real Estate (HVCRE) and acquisition, development and construction (ADC) commercial real estate loans except one-to-four family residential loans or commercial real estate ADC loans that meet certain criteria. These criteria include loan-to-value requirements and a 15% capital contribution by the borrower that must remain in the project until the credit facility is converted to permanent financing, sold or paid in full.

Our Bank is active in financing construction projects in our market. The proposed requirement that these credits be classified as a 150% risk-weighted asset is a blatant overreaction to the economic crisis and a clear misunderstanding of what caused this crisis. ADC credits did not cause the collapse of this economy – fraudulent and subprime mortgage loans originated by the thousands by large financial services companies, were sold without question on the secondary market, securitized and subsequently sold again via Freddie Mac and Fannie Mae - the primary contributor to this collapse. All of this because politicians believed every American should own a home, not because ADC loans are riskier. In addition, if this loan was charged off, the maximum amount of loss in income and/or capital would only be 100% not 150%. This proposal defies common sense.

Increasing the risk-weighting to 150% will cause our Bank's capital requirements to increase, reduce our ability to lend and decrease our overall lending in the construction industry causing a loss of jobs in a sector that is just beginning to recover in our state. In addition, if this proposed ruling is passed as proposed, our Bank would seriously consider getting out of ADC lending altogether as would most community banks. Who then will lend to the small developers who employ the small business electricians, plumbers, landscapers, etc.? Not the big banks and not the community banks.

Multi-Family Real Estate

Currently, multi-family real estate loans are carried at 50% risk-weighting. The proposed rules would increase the risk-weighting to 100% for the first year with a reduction of 50% after 12 months of timely payments. In addition, underwriting criteria has been established as part of the NPR. Finally, the credit must have an original maturity of no less than seven (7) years.

Once the underwriting criteria (LTV and DSC requirements) have been established, the risk-weighting should be carried at 50% at origination and the original maturity of the loan should have no bearing on the risk-weighting of the asset. There is absolutely no correlation between the original term and the collectability of these credits.

These credits have always been strongly underwritten and historically have generated few losses within our Bank or community banking as a whole. The need to retain additional capital with these credits would cause us to reduce or do away with our lending to this segment.

Past Due 90+ Days and/or Non-accrual

Currently, risks associated with problem credits are captured via the Allowance for Loan and Lease Losses. As a credit goes onto non-accrual a specific reserve is allocated to that credit based on an impairment test which captures the unsecured/unguaranteed portion of the credit. As proposed, in addition to the specific reserve allocated in the ALLL, a 150% risk weighting would be allocated to this credit. The amount to be allocated is unclear as the risk weighting is unclear in the proposed rules, however, that is irrelevant in our opinion. The additional risks associated with these credits is already captured in the allowance and should not be provided for again with the additional capital requirement. Again, if the loan was charged off, the loss to income and/or capital would be 100% not 150%.

Redefinition of Capital – Holding Company

Inconsistent with the Collins amendment in the Dodd-Frank Act that grandfathers Trust Preferred Securities (TruPS) for banks between $500 million and $15 billion in assets, the Basel III proposal requires the complete phase-out of TruPS by January 1, 2022. Our one bank Holding Company (HC), Myers Bancshares, Inc. holds $3.7 & 4.0 million in TruPS with maturities of 2033 & 2036 respectively. These are legal and binding contracts that are not due on or before 2022; therefore, this proposal should not supersede a legal and binding agreement that is in place. Our HC stock is closely held by 19 shareholders and it would harm our investors should they have to provide additional capital to pay off these agreements 11 and 14 years <u>before</u> they are due. Community Banks have limited ability to acquire capital and shareholders may not be able and/or willing to make additional capital contributions. Another alternative would be to reduce assets by approximately $85M, which is not feasible as it would not only harm our bank's reputation but also cause us to close branches in the communities we serve and lay off numerous staff members. As many community banks hold TruPS, this proposal would seriously affect our already anemic economy.

Closing

In closing, we would ask that the above provisions of the rules be seriously reconsidered. Combined, these proposed rules alone would reduce our capital levels significantly and reduce credit available within our communities. In addition, we would be forced to sell our government securities due to the risk to our capital and would seriously consider discontinuing ADC and 1-4 family mortgage loans. As difficult as these decisions would be, and regardless of the significant impact we believe they would have on our communities and the country's economy as a whole, preservation of our capital is critical.

We would ask that these rules not only be reconsidered, but that Basel III in its entirety be reconsidered. As noted by FDIC Director Thomas M Hoenig in a recent speech at the American Banker Regulatory Symposium, "...the number of Basel risk-weights evolved from five to thousands." Hoenig states, "Even high levels of capital cannot save a firm.... or save an industry from the cumulative effects of excessive risk taking." Finally, Hoenig closes stating, "Basel III will not improve the condition of small- and medium-sized banks. Applying an international capital standard to a community bank is illogical.....to implement Basel III suggests we have solved measurement problems in the global industry that we have not solved. It continues an experiment that lasted too long."

To implement these rules would negatively impact community banking and take significant credit out of our communities that are already struggling to stabilize. This one piece of proposed legislation has the propensity to throw this country back into an economic recession we have fought so hard with government easing and other "programs" to avoid.

Thank you for your consideration.

Yours truly,

Sharon W. Burran

Sharon W. Burran
President
Chief Operating Officer

cc: Mark Holder, Deputy Comptroller, Fort Worth Field Office

Jamye McGilvray, Analyst, Fort Worth Field Office