WEST TEXAS
State Bank

September 25, 2012

Office of the Comptroller of the Currency
Federal Reserve Board
Federal Deposit insurance Corporation

RE: Basel III

Dear Madam(s) and Sir(s):

West Texas State Bank is headquartered in Odessa, Texas with two locations and has 4 additional branches in the communities of Kermit, Ft. Stockton, Monahans, and Midland. We are a closely held bank that has been in existence since 1937 and has always enjoyed a good financial and regulatory reputation. Our community bank has realized an increase in regulatory oversight which is NOT a result of our mismanagement of the bank, but rather a knee jerk reaction of regulators in response to the financial crisis and the mistakes of a few, not the mistakes of many.

The proposed rules under BASEL III (along with increased supervision) concern us enough to publically comment. Three aspects that we take issue with are: Unrealized losses in the security portfolio flowing through capital, increased risk weighting requirements, and an overall increase in the regulatory burden. These issues are expanded on in the remainder of this letter.

UNREALIZED GAINS/LOSSES

West Texas State Bank has approximately $375,000,000 in assets and at this time has approximately $120,000,000 in AFS securities. How should our bank deal with this proposal, especially when interest rates rise again? Will we have to create an additional capital buffer as a cushion during value fluctuation? **If so, we are taking resources from customer needs and bank growth.** Should we limit our investments in longer duration assets? How will this affect local governments and the housing markets? This proposal could cause a number of banks to sell all or part of their AFS portfolios. Have federal regulators considered what impact this will have on the markets for those securities? We are concerned about how this proposal might impact our asset liability function and our liquidity and contingency funding plans.

We are a community bank and, as such should not be thrown into the "mark-to-market" frenzy that has consumed other segments of the financial services industry.

The most likely result of this proposal will be an increase in employee time to monitor our AFS portfolio.

1501 West University • (432) 337-2851 • P.O. Box 7409 • Odessa, Texas 79760-7409
2426 North Grandview • (432) 367-5000 • P.O. Box 7409 • Odessa, Texas 79760-7409

RISK WEIGHTING OF ASSETS

As previously mentioned, our bank has approximately $375,000,000 in total assets. We have approximately $30,000,000 in mortgages and $13,000,000 in construction projects on our books. All of our mortgages contain balloon payments as we cannot afford to take on the interest rate risk by committing to a rate for a term longer than 60 months (which was praised by regulators). Consequently, the risk weighting for our institution will increase under the proposed rules. By increasing the risk weights, our capital will have to be bolstered, the costs of our loans will increase for the borrowers, the regulatory burden will rise, our earnings will be impaired, and the local construction industry could suffer job losses. **Most importantly, it will limit the availability of mortgages in the communities where we offer loans.**

REGULATORY BURDEN

We are already laboring with 83 employees in an environment involving increased regulatory scrutiny in compliance exams and the new burdens being placed on us by the Dodd-Frank Act.

It appears that as proposed, Basel III will require us to change our internal reporting systems and provide additional employee training. More than likely we will have to hire additional employees. The complexity of the data requests probably means that we will also have to install new software systems and/or look for third parties to provide them. **None of these requirements will allow us to help our customers in our community. The compliance costs will pull money out of capital and earnings rather than help our borrowers.**

In conclusion, the rules as written do more harm than good for community banks that are the lifeblood of our economy when it comes to serving the needs of consumers and small businesses. I encourage you to use common sense and not enact regulations that hinder the ability of banks to serve their customers. The sound management of Texas banks have not led to failures...please don't make us pay for the sins of others.

Sincerely,

Josh McKeever

Josh McKeever
Executive Vice President

Cc: Senator John Cornyn
517 Hart Senate Office Building
Washington, DC 20510

Senator Kay Bailey Hutchinson
284 Russell Senate Office Building
Washington, DC 20510

Congressman Mike Conoway
2430 Rayburn House Office Building
Washington, DC 20515

Texas Bankers Association
203 W. 10th Street
Austin, TX 78701