October 10, 2012

The Honorable Ben Bernanke
Chairman, The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action.

Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements.

Dear Chairman Bernanke:

The comments in this letter are submitted on behalf of the Texas Association of Business (TAB) in response to the requests for comment regarding the notices of proposed rulemaking on minimum regulatory capital and the standardized approach for risk-weighted assets.

TAB is Texas' leading employer organization representing businesses in nearly every community of Texas. Our organization fervently believes that community banks should not be subject to theproposals noted above. Community banks provide a disproportionate share of small business lending and we feel strongly that these proposals will hamper their ability to meet the needs of small businesses in our state. We believe that these proposals will be detrimental to our state and national economy, if they are applied to community banks, for two major reasons.

The first detrimental impact that Basel III would have on the economy is the additional risk weighting that the proposals place on construction loans. Increasing the risk weight on this types of loans from 100% to 150%, will constrain the ability of community banks to make these types of loans. This would be a crippling blow both to community banks and the construction industry. Both home builders and consumers have counted on community banks for interim construction lending for generations. This increase in risk weighting will deliver a body blow to an industry that was just beginning to recover both in our state and nationwide.

The second harmful impact that Basel III would have on the economy is the treatment of balloon mortgages. Balloon notes have long been a way for consumers to manage interest rate risk and have been a very popular option during periods of elevated interest rates. Our builders, and their subcontractors, need for consumers to have viable financing options during all interest rate environments and community banks are essentially the only institutions left in the marketplace that offer these loans. Under Basel III, balloon notes are given a punitive risk weighting. The proposals would require banks that have balloon note residential mortgages with loan to value ratios between 61% and 80% to increase their risk weighting from 50% to 100%. Furthermore, the risk weights for balloon notes with loan to values between 81% and 90% would have their risk weightings increase from 50% to 150%. Surely, these dramatic increases in capital requirements for balloon notes will stop banks from offering balloon notes. While rates on traditional 15 and 30 year mortgages are currently at historically low levels, it is shortsighted to believe that rates will stay at these low levels. At some point, rates will increase and home buyers will not want to fix their mortgage rates at 10%, 12%, or higher for 15 or 30 years. If the proposals become regulation, consumers will not have an alternative to long-term fixed rate mortgages because community banks will be forced to abandon the product. Our builders, and the sub-contractors that they utilize, will have a difficult time surviving during periods of high interest rates if this important option is removed from the marketplace.

Another reason that we feel compelled to advocate so intensely for community banks is that community banks are the economic backbones of rural communities. Community banks are typically owned by local shareholders who have invested their capital in local banks. The management and boards of these banks are deeply committed to their communities and also generally have a significant ownership stake. These institutions do not need an international accord to prudently manage their capital levels. The unintended consequences of this proposed rulemaking will make it more difficult for community banks to remain independent and that would be devastating to rural economies. Community banks are not internationally active and should not be subject to the rulemaking promulgated by an international body.

In conclusion, I urge you to exclude community banks from theseproposals. TAB strongly believes that community banks serve small businesses exceptionally well. Comptroller Curry recently noted the following in a speech to the Small Business Lending Summit on April 17, 2012 in Washington, D.C.

"At the end of 2011, insured banks and thrifts held $664 billion in small business loans, and small institutions, those with less than a billion dollars in assets, accounted for ***38 percent*** of those loans. That's a large share, and it shows how vital the relationship is between small businesses and community banking. While community banks and thrifts provide nearly four out of every ten dollars in credit that small businesses receive, their share of the total loan market is much smaller – only ***12 percent***."

Comptroller Curry's comments were very astute. If community banks are not exempted from these proposals, the financing needs of our small businesses will not be met and it will have a devastating impact on employment and the economy as a whole.

Thank you for your time and attention to this important matter.

Sincerely,

Bill Hammond
President, Texas Association of Business

Cc: Rep. Jeb Hensarling, House Committee on Financial Services (Vice Chairman)
Rep. Randy Neugebauer, House Committee on Financial Services
Rep. Francisco "Quico" Canseco, House Committee on Financial Services
Rep. Ruben Hinojosa, House Committee on Financial Services
Rep. Kevin Brady, Vice Chairman, Joint Economic Committee