TEXAS HERITAGE
NATIONAL BANK
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Comments on Proposed Regulatory Capital Rules

I would like to make several comments concerning the newly proposed capital rules. Before starting my comments, I will provide you with a little information on my background and on the history of the Community Bank that I represent.

My career spans 39 years and all of these years have been spent making and servicing loans and supervising or managing financial institutions in the Northeast Texas area. The last five years have been spent in my present position as CEO and President of Texas Heritage National Bank headquartered in Daingerfield, TX. I am also a shareholder of the Daingerfield Holding Company that owns the Bank. In 2008 we change our name from Daingerfield National Bank to Texas Heritage National Bank (THNB). We still operate under our original charter which was issued in 1889. THNB is a small community bank organized as a Subchapter S Corporation with a foot print that is well established in 4 Northeast Texas Communities including Daingerfield, Ore City, Omaha and Sulphur Springs.

Our Bank has total assets of $110 million and a loan portfolio that consists primarily of mortgage loans for 1 to 4 residential properties, rural farm and ranch real estate mortgages and commercial operating lines to family farmers and small business owners. We also have a relationship with another East Texas Bank whereby we originate 1 to 4 residential properties that are sold into the secondary market. However, there are parts of our area where new home construction will not qualify for the secondary market, due to insufficient comp sales data to support qualified appraisals. This has become somewhat of a niche market for our bank and we provide a source of financing for a set of borrowers with very limited options.

I fully recognize and support the concept that our industry needs regulatory supervision to prevent abuses and to ensure the prudent delivery of credit to deserving customers. However, to develop a set of regulatory capital rules that are applicable to all banks regardless of size is over reaching. Many of the provisions in the published regulations will place an unfair burden on Community Banks and will leave them helpless to meet the needs of their communities and the rural landscapes that surround them.

We have a diverse customer base and we strive to deliver credit as efficient and as fairly as possible. While collateral is a consideration to every loan, we also continue to consider the individual's history, repayment ability, net worth and reputation. We recognize that it is the complete assessment of these credit factors that should determine the risk weighting of each individual loan. Many of our customers have been doing business with us for years. They are known to us and we have a mutual need and respect for one another.

It was the GSEs and the Big Banks that developed dummied down underwriting standards to qualify residential mortgages that were originated in certain locations across the United States, and, in turn, these mortgages were used to securitize investments that created all of the problems. In our area of the country, the big banks were not so prominent and it was the Community Bankers that maintained some sanity and relied on prudent underwriting standards for such mortgages. As a result, our area has maintained a stable real estate market.

With reasonable amortization schedules, the loans secured by residential mortgages have paid down and improved loan to values (LTV) over time. Our 1 to 4 family residential loans are well secured and performing. We should not have to establish documentation to determine the original cost or appraised value of the collateral just to establish a LTV for risk weighting each individual asset. Risk Weighting by using a point in time calculation that remains static over the life of a loan makes no sense at all and gives no consideration to other credit factors that are relevant to the risk weighting process. Under the proposed rules, any of these loans that were not fully amortized by the scheduled maturity are also penalized. Most would argue that the longer the term the higher the risk. It makes no sense from a credit risk to place these loans into a higher risk weighted category for capital ratios.

Implication of the proposed risk weighting rules will encourage banks to require larger than needed equity requirements for borrowers and will have a negative impact on stimulating the economy at a time when our country so desperately needs economic recovery. Community Banks are already being over burden by increased regulations with the provisions coming out of the Dodd Frank legislation. The last thing we need at this time is additional lending restraints that will increase cost and decrease revenues from our loan portfolio.

Another area of concern with the proposed rules is the manner in which Capital derived from Trust Preferred transactions is treated. Before I joined Texas Heritage National Bank, the board and management worked within the regulatory framework to participate in a $3,000,000 Trust Preferred issue that will mature in 2033. The majority of this was used to supply needed Capital for our Bank that has allowed us to grow and service the needs of customers throughout our primary lending area which takes in 16 Northeast Texas Counties. Our Bank is very customer and community oriented.

To now change the rules and demand that we phase out the counting of the Trust Preferred Capital is unconscionable, in my opinion. There is nothing right about this portion of the regulation and it will place an undue burden on many Community Banks that used this vehicle to enhance Tier 1 Capital Ratios. It has served our bank and our customers well. Our Bank's shareholders are not wealthy investors with an abundance of liquidity. They depend on dividends to pay their tax obligation from bank profits and to service note payments on loans secured by their Holding Company Stock.

Future regulatory compliance with certain provisions of the proposed regulations is another area of concern as it will require additional expenses both in software development and increased staff. This additional expense will serve no useful purpose and most certainly will not generate a penny of revenue. The proposed methodology of risk waiting loans, based on the lesser of cost or appraised value at the time of inception, is ridiculous and is a good indication as to the total disconnect that exist between those that wrote the proposed regulation and those of us that are doing our best to serve the needs of customers in the communities and cities of rural America. The complexity of these proposed rules will also require much more intensive strategic planning and monitoring and place additional burden on our small bank, which is already struggling, with increasing operating costs and declining income sources.

The inclusion of comprehensive income (loss) in the Tier 1 Capital calculation is also a big concern. This will result in volatile swings in capital as the availability for sale investments change with market conditions. This may encourage many banks to move more investments into held to maturity and, thereby, reduce liquidity which again could result in less funds available for loan growth and economic stimulus.

For many Community Banks, forcing them to comply with these proposed capital rules will drive shareholders to seek an exit strategy. Such activity will lead to more consolidations. Having been in the lending industry for 39 years, I know that with each consolidation comes less compassion and commitment to serve the local needs of our communities.

I feel that the current Capital Rules are more than adequate for Community Banks. **Community Banks** should be exempted altogether under these proposed regulations. If they are not exempted, then at a minimum the rules should be modified to:

- exempt Community Banks from the provisions dealing with the Trust Preferred transactions;
- should allow Community Banks to receive the same risk weighting for 1 to 4 residential loans;
- should not include comprehensive income (loss) in the Tier 1 Capital calculation.

Sincerely,

Dwyatt Bell

Dwyatt Bell
CEO/President
Texas Heritage National Bank