From: "Karen Neeley" <kneeley@ibat.org> on 10/05/2005 10:35:06 AM

Subject: Capital Adequacy Guidelines for Bank Holding Companies

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave NW
Washington, DC 20551

Dear Ms. Johnson:

The Independent Bankers Association of Texas ("IBAT") strongly supports this proposal to raise the asset threshold for qualifying small bank holding companies. Many years ago, IBAT engaged in dialogue with the Federal Reserve Bank of Dallas to recommend this very move. Currently, the definition of a "small" bank holding company is pegged to an asset size of $150 million. That is not small; that is tiny. Although there are numerous bank holding companies in Texas with assets over $150 million, over fifty percent of deposits in Texas are held by less than ten banks controlled by giant bank holding companies domiciled in other states. Truly, holding companies with assets of one billion dollars or less do not present significant risk to the system. In fact, HR 2061/S 1568 would statutorily raise the threshold for small banking holding company treatment to one billion dollars in assets. IBAT would recommend that that threshold be used and that it be indexed to inflation utilizing a standard index such as the Consumer Price Index or other valid index.

IBAT also applauds the provision in this proposal that would exclude trust-preferred securities from the debt or equity securities that would disqualify a small bank holding company from special treatment. Trust preferred securities have proven to be a cost-effective, safe way of increasing capital for many bank holding companies in Texas.

We would request clarification of one other provision in this Section. A holding company would not qualify for small bank holding company policy statement treatment if it were engaged in "significant" non-banking activities. How much is "significant?" Would twenty-five percent be the magic number? This needs to be clarified so that institutions can plan their activities appropriately. In addition, it would be helpful if the term "non-banking activities" were further clarified. Would this include non-banking activities closely related to banking such as a mortgage company subsidiary? IBAT would suggest that this would not be an appropriate exclusion; however, if the term is meant to apply to those additional activities authorized in the Gramm-Leach-Bliley Act, such as insurance and securities, then such exclusion does appear to be justified.

Thank you for this opportunity to comment. Again, IBAT applauds this much-needed move to provide additional flexibility for community banks and the holding companies that provide a source of capital and strength to them. IBAT is a trade association representing approximately 600 independent community banks domiciled in Texas, many of which would be affected by this policy change.

Sincerely,
Karen M. Neeley
General Counsel