



NATIONAL BANK

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Via Electronic Submission

Ben S. Bernanke
Chairman
Federal Reserve Board of Governors
regs.comments@federalreserve.gov
Re: Basel III Docket No. R-1442

Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Re: Basel III Docket ID: OCC-2012-0008,
0009, and 0010;

Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
comments@FDIC.gov
Re: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-AD97

Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals released June 7, 2012 by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. I am writing on behalf of Inwood National Bank, a \$1.4 billion community bank located in Dallas, Texas.

Inclusion of unrealized gains and losses in the Available for Sale (AFS) portion of the securities portfolio in Tier 1 common equity capital: Inwood National Bank has \$1.4 billion in assets and at this time approximately \$37 million in AFS securities. Our country is in an unprecedented period of low interest rates. Like many banks, we have gains in our investment portfolio. This proposal would serve to increase regulatory capital in the short term. However, as interest rates rise, this increase will quickly shift to a loss. As interest rates rise, we will have to create an additional capital buffer as a cushion during value fluctuations. If so, we are **taking resources from supporting customer loan 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 the impact on the markets for those securities?

I am 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

drawn into the “mark-to-market” frenzy that has consumed other segments of the financial services industry. The bulk of securities the bank holds are U.S. Treasury and government agency bonds. There is no credit risk to these holdings – only interest rate risk. The most likely result of this proposal will be an increase in employee time to monitor our AFS portfolio and the need to purchase additional software to monitor compliance with the regulation.

Phase-out of Trust Preferred Securities: The Dodd-Frank Act grandfathers Trust Preferred Securities (TRuPs) for banks between \$500 million and \$15 billion. The Basel III proposal requires complete phase out of TRuPs. 90% of carrying value is allowed in 2013, with an annual decrease of 10% thereafter. Our holding company has \$36 million in Trust Preferred Securities in our regulatory capital. Under the Basel III proposal, we would have to replace the capital - not an easy task for a privately held, community bank – or reduce assets. This will reduce the amount of loans we will be able to provide to our communities to support job growth.

We would ask that the proposed rule be revised to fully recognize the intent of the Collins amendment to the Dodd-Frank Act by permanently grandfathering outstanding Trust Preferred Securities for institutions between \$500 million and \$15 billion. There is marked difference in the structure of banks less than \$15 billion, and again in those banks below \$5 billion. Banks in these ranges are not active in investment banking activities.

Assignment of increased risk weights for residential mortgages based on whether they are “traditional Mortgages” in Category 1 or “riskier” in Category 2: Banks will be required to assess every residential mortgage loan in their portfolio and re-assess every mortgage after a restructuring or modification. The proposal does not recognize private mortgage insurance. There is no grand-fathering for current loans on the books. Our bank has approximately \$230 million in residential mortgage assets. The most likely result of this proposal is that our capital requirements will increase, our earnings will be impaired, our regulatory burden will be increased, and the availability of mortgages in our community will be reduced.

At a minimum, any final rule should grandfather all existing mortgages by assigning them risk weights as required under the current general risk-based capital requirements (i.e. 50% risk weight). Grandfathering such mortgages is appropriate for at least three reasons:

- First, many banks will not have the data necessary to assign mortgage categories under the proposal.
- Second, even if a bank has the data necessary to calculate the risk weights applicable to each mortgage, it would be extremely burdensome, if not almost impossible, for many banks – the extent of which would be scaled to the number of exposures – to examine old records in order to determine mortgage categories and calculate LTV ratios under the proposed framework.
- Third, given the substantial increase in capital that would be required for such existing category 2 mortgages, which may constitute a substantial amount of assets on our balance sheet, the retroactive impact of the proposed treatment would be especially harsh. Given that the Basel III NPR is already substantially increasing required minimum capital, the need for retroactive application of the new standards is significantly mitigated.

Assignment of increased risk weights for “High Volatility Commercial Real Estate”

(HVCRE): HVCRE is defined as acquisition, development and construction (ADC) commercial real estate loans except for: 1) 1-4 family residential ADC loans; or 2) commercial real estate ADC loans that meet LTV requirements, the borrower’s cash in the project is at least 15% of the “appraised as completed” value prior to the advancement of funds by the bank and the borrower is required to remain in the project until the credit facility is converted to permanent financing, sold or paid in full. The proposed HVCRE risk weighting increases from 100% to 150%. Inwood National Bank currently has approximately \$77 million in construction projects on our books. By increasing the risk weighting to 150%, our bank’s capital requirements will increase, **the cost of our loans will increase, and will dampen an already weak recovery in the construction industry.**

Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential home loans which have been sold into the secondary market:

The proposal is unclear as to what reps and warranties would cause our bank to set aside capital on loans we have sold and for how long. Some of the reps and warranties in our correspondent contracts are considered life-of-loan reps. Coverage of the historical pool of loans sold would impose a significant capital burden – potentially overtime causing a bank to possibly hold more capital than the size of the bank. **Coverage of loans going forward would probably cause the bank to exit this line of business.** Calculation of this capital requirement would appear to be extremely difficult in that once the loan is sold, how would the originating bank know when the commitment was extinguished, or if the property had been sold?

Proposal to increase risk weights on delinquent loans: The bank already sets aside reserves for loans that are 90 days past due or on non-accrual. Adding a capital requirement to the same category essentially double counts the risk exposure.

Increased regulatory burden: The Basel III proposal will require all banks to collect new and granular information in order to calculate the new risk weights. New information will have to be obtained, maintained and reported in order to satisfy underwriting features as well as LTV features to satisfy due diligence requirements. Existing loans are not grandfathered. Information will have to be reported in different formats and with greater frequency. Monitoring capital with the new requirements will be time consuming.

In summary: A strong economy is dependent job growth and job growth is dependent on availability of capital to fund the small businesses of our community that produce most of those jobs. The proposed rules should be modified / withdrawn so as to not reduce the ability of our bank to provide this capital. Large, complex international institutions deserve additional scrutiny and additional capital requirements. Community banks, which were not involved in the activities that caused the Great Recession, should not be made to pay for the sins of others.

Thank you for your consideration.

Sincerely,


Dennis Lorch