LONESTAR
INVESTMENT ADVISORS

February 13, 2012

VIA E-Mail

Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
*Docket No. R-1432*
*RIN: 7100 AD 82*

Department of the Treasury
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
*OCC: Docket ID OCC-2011-14 and RIN: 1557-AD44*

Securities and Exchange Commission
rule-comments@sec.gov
*Release No. 34-65545; File No. S7-41-11*
*RIN: 3235-AL07*

Federal Deposit Insurance Corporation
comments@fdic.gov
*RIN: 3064-AD85*

Re: Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds
(Federal Reserve Board Docket No. R-1432, RIN 7100 AD 82; OCC Docket No. OCC-2011-14, RIN 1557-AD44; SEC File Number S7-41-11; FDIC RIN 3064-AD85)

Ladies and Gentlemen:

Lone Star Investment Advisors is a Dallas-based private equity firm that specializes in leveraged acquisitions and recapitalizations of strategically viable, middle-market businesses with strong potential for growth. Our investors include four Federal Reserve regulated banks, seven Federal Deposit Insurance Corporation regulated banks, and thirteen Office of the Comptroller of the Currency regulated banks. We are a fund that invests in a wide variety of industry sectors including manufacturing/industrial, distribution, business services and energy/utilities that meet Community Reinvestment Act ("CRA") requirements. We specialize in investments that will create employment opportunities in the communities in which they are located, and maintain a strong reputation for driving economic growth in low income areas. As it relates to our comments here, we believe the Proposed Rule should be more specific about including Community Reinvestment Act qualifying funds that are not SBICs or rehabilitation investments.

Lone Star appreciates the opportunity to provide the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Securities and Exchange Commission, and the Federal Deposit Insurance Corporation (collectively, the "Agencies") with comments on the proposed rules promulgated by the Agencies (collectively, the "Proposed Rule") implementing Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). Lone Star fully supports the spirit and intent of the Proposed Rule but would like to comment on the specific impact this legislation has on firms of our nature.

Our comments will address Section _.13(a) of the proposed rule which implements sections 13(d)(1)(E) and (J) of the BHC Act 294. Specifically, we will address the following:

- *Question 276.* Is the proposed rule's approach to implementing the SBIC, public welfare and qualified rehabilitation investment exemption for acquiring or retaining an ownership interest in a covered fund effective? If not, what alternative approach would be more effective? and
- *Question 280.* Does the proposed rule unduly constrain a banking entity's ability to meet the convenience and needs of the community through CRA or other public welfare investments or services? If so, why and how could the proposed rule be revised to address this concern?

**First, with regard to Question 276, we believe the Agencies correctly included an investment exemption for SBICs, public welfare and qualified rehabilitation investments.**

While it is important to limit risky investments by financial institutions, it is also essential to the continued recovery of the U.S. economy for lending to and investment in small businesses and community development projects to continue. Since 2000, our funds have focused exclusively on the development of a dual bottom line strategy for targeting low- to moderate-income communities. The majority of our investors are Texas-based banks, primarily because investments in our funds qualify under the Community Reinvestment Act Investment Test requirements as part of the statewide assessment area standard. Through our partnership with community and regional banks, we have made a significant impact to community development, as described in more detail below.

Our first fund, started in 2000, completed 6 transactions, investing $26 million in underserved markets in North Texas. Our 2006 and 2008 funds expanded our model throughout the state of Texas, and invested $123 million. We recently launched a new fund Lone Star Opportunities Fund V ("LSOF'), targeting $150 million in committed capital to continue our mission of providing investment capital to middle-market companies located in low- to moderate-income communities in the state of Texas. To date LSOF has made two investments in low-income areas with a combined investment of $28 million. We base many of our investment decisions on the community impacts these projects will create or maintain. We approximate these impacts based on impacts we have observed or quantified in our previous projects. Specifically, we commissioned an Economic Impact Study that had a scope of quantifying community impacts for all of our dual bottom line funds starting with our 2000 fund. This study was commissioned by the University of Texas at El Paso and used the widely used IMPAN input-output model for community economic impacts. The model utilized county level industrial and wage information to calculate economic impacts at the county level, so the impacts that are stated are targeted specifically to the impact to the local community. While impacts may have been larger had we taken a statewide or regional impacts approach, we do not believe these impacts would truly reflect the impact to our targeted communities.

We examined the impact based on the amount of applicant financing from our actual historical activity. Likewise, the amount of financing from other sources was taken from our actual case history going back to 2000. What is important to note here is that this is the actual investment in our projects, and does not take into consideration the business activity that this investment generated for our target communities. Below we will demonstrate the business volume this investment generated given our impact model for the targeted counties. The numbers as presented represent $129 million in direct financing from our funds and $128.7 million in funding from other sources. Our permanent full time equivalent job impacts are derived from our economic impact study, which includes only the number of direct employees in our project, although we know (via the input output model) that the number of indirect and induced jobs generated from this enterprise go beyond those numbers. Thus, of the total 6,992 full time equivalent employees created or retained by our project 5,047 of those are directly employed by our projects, 1,001 are the result of indirect business activity, and 944 are induced.

We believe employment is the primary driver of building sustainable communities; therefore, a core mission of our funds has been to provide employment to companies in low- to moderate-income areas, with an intention of having that employment serve as a catalyst for other economic activity in the area. Further, we strive to have projects that are maintaining or creating jobs that provide livable wages to their employees as well as other benefits such as working conditions and health care. According to our Economic Impact study, our 2000 fund had an average annual compensation per employee of $40,536. In our 2006 and 2008 funds, the average wage per employee rose to $57,000. Collectively these funds generate $260 million of labor income in their local communities. In addition to impacts to earned wages, we know that we are having a positive impact on the business volume of our communities. Our active projects generate annual business volume of $688 million, and collectively raise $77 million in tax revenue for their local counties.

**Second, with regard to Question 280, we believe the Proposed Rule *could* unduly constrain a banking entity's ability to meet the convenience and needs of the community through CRA.**

As previously noted, many of our investors are financial institutions, who have enjoyed the opportunity to invest in a private equity fund while also meeting CRA objectives. Investment in our funds has helped these institutions to achieve an "Outstanding" rating on their CRA exams, specifically under the CRA investment test. Of the bank investors that have had CRA exams subsequent to their investment in our 2006 fund, all have returned with an "Outstanding" rating on their investment exams (from previous ratings of "Low Satisfactory" to "High satisfactory"). In addition, most are able to bring their overall CRA rating up to "Outstanding" as well. Below are actual excerpts from CRA exams that reference our funds:

**Broadway National Bank -**

"BNB's performance under the Investment Test is "Outstanding." Lone Star Capital Markets Fund - BNB invested $800 thousand of a $1 million total commitment in the Lone Star Capital Markets Fund (LSCMF). LSCMF is a Certified Development (CDE) formed to make $1 million to $10 million equity-oriented investments in middle market U.S. companies. Lone Star Capital applies for Treasury New Markets Tax Credits. Funds committed are invested in companies located in LMI areas in Texas. This is a complex state-wide investment with the potential to benefit the bank's AA."

**Legacy Texas Bank -**

"Legacy also sought out innovative investment opportunities with its $1.5 million commitment to Lone Star New Markets, a Certified Development Entity providing investment capital for businesses located in underserved communities in Texas."

**West Texas National Bank -**

"WTNB has committed to a $1 million equity investment in Lone Star Growth Capital, LP. As of this examination date, $500 thousand has been funded. This investment vehicle was purchased through a Community Development Entity under the new markets tax credit program to provide funding for small businesses in low- to moderate-income tracts throughout Texas. These tracts are

> defined as those with more than 20 percent below the poverty level or median family income less than 80 percent of the area median income."

Based on the successful outcomes of CRA examinations of our investors, we believe that our funds would qualify under the "public welfare" exemption in the Proposed Rule. However, our fear is that the current language of Section _.13(a) of the Proposed Rule is not clear or direct enough to give our investors the confidence to know that an investment in our funds meets the rule. **We therefore respectfully request that the Agencies incorporate clarifying language in the Proposed Rule that specifically references the inclusion of a qualified investment under the Community Reinvestment Act as "an investment that is designed primarily to promote the public welfare."** We believe that without such clarifying language, financial institutions will be unlikely to continue to invest in programs such as ours, resulting in diminished community development, and slower economic growth.

Once again, we appreciate the opportunity to comment on the Proposed Rule, and we commend the Agencies for their efforts to improve the stability of the U.S. financial system. We are glad to answer any questions you have.

Respectfully,

A.W. Hollingsworth

Arthur W. Hollingsworth
Managing Member