RED RIVER BANK

R. Blake Chatelain PRESIDENT AND CHIEF EXECUTIVE OFFICER

October 12, 2012

VIA EMAIL

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket R-1442

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@FDIC.gov
RINS 3064-AD95

RE: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (the "Basel III NPR")

Dear Chairman Bernanke and Acting Chairman Gruenberg:

Thank you for allowing us to comment regarding the proposed implementation of the Basel III NPR. On behalf of Red River Bank and its holding company, Red River Bancshares, Inc., we respectfully offer the following for your consideration and analysis.

Introduction

Red River Bancshares, Inc. ("Company") was incorporated in 1998 for the purpose of owning and controlling a to-be-charted Louisiana state bank. On January 14, 1999, the Company's wholly-owned subsidiary, Red River Bank ("Bank") received its deposit insurance certificate from the FDIC and its charter from the Louisiana OFI and commenced operations as a commercial bank in a single office location in Alexandria, Louisiana. Since then, the Bank has grown to fifteen locations in central and northwest Louisiana and recently surpassed $1 billion in total assets.

Since inception, neither the Bank nor the Company has been listed as a problem institution, been under any regulatory agreement or order, or been the subject of regulatory concern. Moreover, during the recent economic crisis and recession, we did not need to accept government assistance, did not have to raise additional capital, and, in fact, we reported several quarters of record earnings.

Our Company is privately held by approximately 400 shareholders, and our Bank employs over 235 people. The Bank operates as a traditional community bank,

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serving the general banking needs of consumers and small to medium-sized businesses in central and northwest Louisiana.

General Comment

We have analyzed the Basel III NPR. In addition, we have reviewed various detailed examinations of the Basel III NPR prepared by numerous law firms, bank financial advisors and trade associations including: Sullivan & Cromwell LLP, Sandler O'Neill + Partners, the American Bankers Association and SNL Financial, among others. We do not see any significant improvement to the overall safety and soundness of our institution that will result from the implementation of the Basel III NPR; moreover, we see many potential problems. We would have preferred to see the Basel II rules fine-tuned rather than have the introduction of the incredible complexity posed by the Basel III NPR. As former Kansas City Federal Reserve Bank President and current FDIC board member, Thomas M. Hoenig, recently noted, "Basel II did nothing to prevent the most recent financial crisis and Basel III will do little to prevent the next one."

Although the Basel III NPR is a laudable attempt to increase capital levels, we submit that the capital levels required under Basel II did not cause or exacerbate the recent financial crisis, the proximate cause of which was lightly regulated credit rating agencies who were permitted to improperly assign, to otherwise speculative grade securities, a credit rating that required little or no risk-weighting under the current capital rules. A major procyclical accelerant to the crisis was the decade-long, relentless assault by accounting rule-makers (principally, the FASB and the SEC) to limit the ability of bank management and bank regulators from exercising their historic judgment to decide when to prudentially maintain higher reserves, which limitation had the effect of reducing reserves across the industry to an unsafe and unsound level just at the time the crisis unfolded. When reserves are allowed to be maintained at higher levels to absorb potential losses, more capital is not always necessary.

Our view is that FDIC board member Hoenig is correct, the Basel III NPR should be scrapped in favor of simpler capital rules that do not rely on complex modeling tools and subjective and malleable assumptions. If that course of action is not possible, we would like to suggest that it may be time to consider a bifurcated approach to capital requirements that would allow home country regulatory authorities to establish their own capital rules for non-complex domestic institutions below a defined asset-size threshold to account for the great differences between small traditional community banks serving a local banking market and the large international banks involved in trading and capital markets activities.

History has shown that the Basel capital rules have not really been all that effective at averting or mitigating financial crisis and in some ways the Basel capital standards have actually helped to usher in a financial crisis (*e.g.*, the 0% risk-weighting on sovereign debt in the current Euro-zone crisis). Therefore, we question whether the United States should cede all of its sovereign authority over for U.S. banks to the Basel Committee. We think it is time to limit Basel's applicability to large complex institutions and/or those institutions that operate internationally, which are the institutions of true international concern and which pose a risk to the global financial system. Frankly, it seems absurd to us that our small, Louisiana-based bank should be under the same complicated capital regime as Union Bank of Switzerland, JPMorgan Chase & Co., and The Bank of Tokyo-Mitsubishi UFJ, and it is probably counterproductive from a regulatory standpoint. In addition, a bifurcated approach that would provide for simple capital standards for small, domestic non-complex financial institutions would also mitigate the procyclical effect of having all banks in the world operating on exactly the same complicated (and potentially flawed) capital standards.

The Basel III NPR spans 94 pages in the Federal Register, accordingly, we have focused our specific technical comments on those issues we find to be of utmost significance to our institution and institutions like ours. Our specific comments and concerns on the Basel III NPR are set forth below.

Proposed Changes to Risk-Weighted Capital Calculations

Our greatest concern lies with the proposal to recognize in common equity tier 1 capital unrealized gains and losses on all available-for-sale ("AFS") securities. We maintain a significant pool of high-quality bonds that are recorded as AFS securities to provide liquidity. Temporary changes in the market values of these lower-risk debt securities could introduce substantial volatility to our regulatory capital ratios, including the possibility of triggering "prompt corrective action." Because of this volatility, a disincentive is created by the Basel III NPR to hold highly liquid AFS instruments on our balance sheet. Thus, this provision of the Basel III NPR undermines our need to maintain strong liquidity to meet our internal liquidity goals and policies. This introduces a new procyclical aspect to our capital standards that could make a future financial crisis even worse. Additionally, this provision is especially concerning to many small community banks like ours which are not publicly traded and thus cannot easily access the capital markets for liquidity purposes like the large, publicly-traded banks. We must meet all of our liquidity needs internally, primarily from our portfolio of AFS securities, and this provision of the Basel III NPR operates to disincent us from having plenty of excess liquidity on hand, whether to meet the daily needs of customers or to survive major financial shocks.

Trust Preferred Securities Phase-Out

The Basel III NPR provides for a three-year phase-out of trust preferred securities ("TPS") for institutions with total assets over $15 billion and a ten-year phase-out for institutions under $15 billion in total assets. We would propose that a third category be added, namely, that institutions under $5 billion in total assets be allowed to continue to include TPS in risk-weighted capital at full value until the call or maturity of the TPS instrument, which in most cases would not be longer than 20 years or twice the currently proposed phase-out period.

This comment is based on the fact that many community banks under $5 billion in total assets are not publicly-traded, which will make it difficult for many of them to easily refinance their TPS capital instruments. If faced with having to execute a dilutive equity offering to replace their TPS or to artificially constrain their balance sheets in order to replace TPS over time from retained earnings, they will pursue the latter option which could adversely affect community bank lending activities in their local markets at a time when the country is still struggling to recover from the recession.

Small nonpublicly-traded community banks followed the rules and detrimentally relied on the Federal Reserve approving TPS securities to be counted as tier 1 capital and they cannot refinance this component of capital as easily as large publicly-traded institutions. We think the existing TPS in institutions with total assets under $5 billion should be permanently grandfathered. If the Federal Reserve would do so, it would be supporting lending in local communities at a critical time in the economic recovery.

Changes to Asset Risk-Weightings

We see numerous problems and potential unintended consequences for housing and consumer and business lending from the proposed changes to the asset risk-weightings in the Basel III NPR. For example, many businesses and individuals find it helpful to have future cash flow shortfalls covered by lines of credit. Many of these lines are never utilized but are in place at the request of the customers. Under the Basel III NPR, the risk-weightings for these accommodations will be increased to the same level as if the loan were outstanding at all times, even if the balance is zero. However, in order to recover the incremental cost of capital, banks will have to charge fees for these lines, charge higher interest rates on those lines that do have outstanding balances, and/or reduce the availability of lines of credit as well as the maximum amount customers can draw on lines of credit.

With regard to home lending, the Basel III NPR will force banks to increase their risk-weighting for conventional mortgages from 50% to as much as 200%. The new risk-weighting for mortgages over 80% loan-to-value will range from 75% to 100%, effectively shutting down that market. These new risk-weightings will not encourage the transfer of residential real estate required to help the market clear and recover.

Complexity and Cost of the Basel III NPR

Basic capital calculations under the Basel III NPR are very complicated. For example, simply to determine the three minimum capital requirements on a quarterly basis under the Basel III NPR will require our bank to compute 13 different capital deductions and adjustments as well as adjustments to risk-weighted assets. This is in addition to the capital conservation buffer of 2.5%. Needless to say, there are many traps for the unwary in the Basel III NPR.

Conclusion

We believe that the Basel III NPR is overly-complex, unduly burdensome and will have many undesirable and unintended consequences. One can only imagine the potential issues that will eventually be created from the scores of staff interpretive rulings that will undoubtedly have to be issued to clarify the Basel III NPR. In addition, as discussed above, the Basel III NPR will put smaller banks at a competitive disadvantage. We would prefer that the Basel III NPR be re-worked to be made less complicated, and more transparent. If it must be implemented it should be substantially delayed until more perspective has been gained on the recent crisis and/or until a stronger economic recovery has taken hold in the country, and indeed, the world. Finally, it should be noted that the U.S. financial industry is still reeling from the implementation of the Dodd-Frank Act; it seems unwise to us to add further dramatic change such as the Basel III NPR at this point in time.

Thank you for allowing us to provide our views in this matter.

Sincerely,

R. Blake Chatelain

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President and CEO
Red River Bank and Red River Bancshares, Inc.

RBC/cs

CC: [Congressional Delegation]

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