VERITEX
COMMUNITY BANK

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October 12, 2012

VIA EMAIL: regs.comments@federalreserve.gov

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

RE: Docket No. R-1430; RIN 7100-AD7 and R-1442; RIN 7100-AD7

VIA EMAIL: regs.comments@occ.treas.gov

Office of the Comptroller of the Currency
250 East Street, SW., Mail Stop 2-3
Washington, DC 20219

RE: Docket ID OCC-20012-0008; RIN 1557-AD6 and OCC-2012-0009; RIN 1557—AD46

VIA EMAIL: comments@fdic.gov

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: Docket ID OCC-20012-0008; RIN 1557-AD6 and OCC-2012-0009; RIN 1557—AD46

Ladies and Gentlemen:

Veritex Community Bank opposes the application of BASEL III to community banks. Veritex provides high-touch banking services to over 6500 consumer and small business customers in the Dallas community. Our bank has $504 million in assets and 109 employees. We have been successful to date, however fear that the additional burdens imposed by the BASEL III proposal will severely impact our ability to continue this success.

Veritex believes the Prompt Corrective Action regulations already in place provide sufficient regulation over community bank capitalization. We are already laboring in an environment involving increased regulatory scrutiny in compliance exams and the new burdens being placed on us by the Dodd-Frank Act. Our compliance costs alone have increased 300% in the last several years. It appears that as proposed, BASEL III will require us to change our internal reporting systems and provide additional employee training. More than likely we will have to hire additional employees. The complexity of the data requests means that we will also have to install new software systems and/or look for third parties to provide them. None of these requirements will allow us to help our customers in our community. The compliance costs will pull money out of capital and earnings rather than help our borrowers.

The increasing cost of compliance for community banks is leading to more consolidation in our industry. BASEL III, as proposed, will only accelerate this trend. Federal regulators may not be troubled by a country that has only a handful of banks. From our perspective, community banks still serve a vital function in our economy. It would be a shame if these new international capital requirements help lead to their demise.

The following areas in particular will create tremendous volatility in our capital levels, increase the cost to serve our community, and create unintended consequences if adopted:

Unrealized Gains and Losses in the Available for Sale Portfolio

Veritex Community Bank has $35 million in AFS securities, most of these securities are government agency MBS bonds. The primary objective of the bank's investment portfolio is to provide liquidity and contingency funding sources for the bank at some rate better than holding cash. Depending on the volatility of market, the unrealized gain and loss can fluctuate greatly. According to the proposal, we will have to create an additional capital buffer as a cushion during value fluctuations. If so, we are taking resources from customer needs and bank growth. We are 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 thrown into the "mark-to-market" frenzy that has consumed other segments of the financial services industry. The most likely result of this proposal will be an increase in employee time to monitor our AFS portfolio and/or hold more cash thereby reducing earnings (and ultimately capital). This may also require us to purchase software to stay in compliance. Both would lead to less time and service for our customers.

Phase out of Trust Preferred Securities

Our bank has $3 million in Trust Preferred Securities in our regulatory capital. Under the BASEL III proposal, we will need to replace the capital, not always an easy task for a community bank. Another alternative is to reduce assets and in doing so we will need to turn away small business owners who rely on our bank and other community banks like Veritex to provide operating funding for their businesses.

Risk Weighting for High Volatility Commercial Real Estate (HVCRE)

Our Bank is very active in financing construction projects in our market. We currently have $12 million in construction projects on our books. By increasing the risk weighting to 150%, our bank's capital will have to be bolstered, the cost of our loans will increase, and the local construction industry will suffer job losses.

<u>Risk Weighting for Home Mortgages</u>
Our bank has approximately $41 million in mortgage assets. Our employees provide mortgages to communities across Dallas. As a result of this proposal, our bank will need to hire additional employees and incur training expense to monitor the capital impact from individual loan restructuring or modifications. Our earnings will be impaired. Our regulatory burden will increase. Most importantly, it will limit the availability of mortgages in the communities where we offer loans.

In closing, we at Veritex Community Bank believe there is a need for bifurcation of banking regulation between community banks and large multi-national banks. Large multi-national banks may require more complex capital rules as dictated by their deposit and lending activities, capital structures, and non-traditional banking lines of business. However, the risk profile for a community bank like Veritex is very different. We feel our time is better spent focused on assisting our communities by providing loans and services to qualified business and individuals without additional regulatory burden.

Thank you for your consideration,

Sincerely,

Malcolm Holland
Chief Executive Officer and Chairman
Veritex Community Bank