October 1, 2012

VIA EMAIL: regs.comments@federalreserve.gov

Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: BASEL III 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, D.C. 20219

RE: BASEL III Docket ID OCC-2012-0008; RIN 1557-AD46 and
OCC-2012-0009 and 0019; RIN 1557-AD46

VIA EMAIL: comments@fdic.gov

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

RE: BASEL III FDIC RIN 3064-AD95, RIN 3064-AD96 and
RIN 3064-D97
Ladies and Gentlemen:

Bank of the West, a community bank of $350 Million in asset size located in Grapevine, Texas strongly opposes the application of BASEL III to our bank. Community banks with assets less than $10 Billion should be fully exempt from BASEL III requirements. The negative impact on the Bank of the West franchise will be discussed further into this letter.

Prompt corrective action regulations already in place provide sufficient regulation over community bank capitalization, adequate protection to the FDIC Deposit Insurance Fund, and generally allow adequate return on stockholder equity. BASEL III would upset this current balance with its proposed complex and disproportionately punitive rules.

Current issues impacting the entire banking system more than ever before indicate a need for separation and bifurcation of banking regulations. Our community banking model is dissimilar and far removed from the larger multi-national banks’ models and yet they continue to be combined into a single industry and regulated identically. Our community bank does not have a complex capital structure, sophisticated non-traditional banking activities and an exorbitant risk profile. Our community bank provides deposit benefits and makes investments through loans to the customers and communities that it represents. The distinct differences in these entities require a different and separate regulatory structure.

BASEL III, as proposed requires a complete phase out of Trust Preferred Securities (TruPs). 90% of carrying value is allowed in 2013, with an annual decrease of 10% thereafter. Our bank has $6.7 Million in Trust Preferred Securities in our regulatory capital. Under the BASEL III proposal, we would have to immediately make plans to replace the capital, not an easy task for a community bank. Our other alternative is to start reducing our asset size, which would directly impact our customers because lending and deposit activities would have to be reduced and we could not continue to provide for the services needed in our communities.

Our bank currently holds $60 Million in Available For Sale (AFS) securities. Gains and losses in AFS portfolios happen primarily from interest rate movements as opposed to changes in credit risk. Interest rates in debt securities can fluctuate frequently (sometimes daily) and this proposed rule will cause tremendous volatility in capital calculations if all unrealized gains and losses “flow through” to
Common equity tier 1 (CET1). The question then becomes 1.) How should our bank deal with this issue of fluctuation, especially when interest rates rise? 2.) Will we have to create yet another capital buffer as a cushion during value fluctuations? If so and once again, resources currently available for our customers are being used for unnecessary purposes. Other decisions then must be made that will affect our communities, i.e. should we limit our investments in longer duration assets? How will this affect local governments, municipalities and the housing markets? This proposal could cause a number of banks to sell all or part of their AFS portfolios. Have regulators considered what impact this proposal will have on the markets for those securities? The proposal can seriously impact our asset liability function and our liquidity, as well as contingency funding plans. Community banks like Bank of the West should never be thrown into the “mark-to-market” frenzy that has affected other segments of the financial industry.

Other affects of this proposal would include an increase in personnel to monitor the securities portfolio and could require more investment in compliance software. This means less time and service for our customers.

Our bank has always been active in construction project financing. Because of the less than stellar economy, officer risk management, and much higher regulatory scrutiny of this market segment, our bank’s total investment in this area is already much lower than in years past. However, we currently have approximately $20 Million invested in construction projects in our communities. By increasing the risk weighting to 150% on “High Volatility Commercial Real Estate” (HVCRE), our bank’s capital will have to be bolstered for any increase in this type of investment, the cost of our loans will increase, our communities will suffer and the local construction industry will experience job losses.

We understand the probable motivation of this proposal. States like Georgia, California and Florida have seen bank losses and failures from (HVCRE) lending. But from our perspective by allowing the rapid growth of institutions located in those markets, some of the blame must be placed on lax supervision, as well as failure of management in those affected institutions. The sound management and the sound regulatory oversight of Texas banks have not led to failures. Why then should we and other successful community banks pay for the sins of others?

The BASEL III proposal will require all banks to collect new and sometimes unproven data in order to calculate risk weighted assets and satisfy due diligence requirements. Our bank provides jobs for 100 employees. We already labor in an environment involving increased regulatory scrutiny in compliance exams and all of the new burdens being placed on us by the Dodd-Frank Act. Our compliance costs have already increased over 100% in the last ten years.

It appears BASEL III will require us to change internal reporting systems and provide additional employee training. Most likely we will have to hire additional employees because the complexity of the
new data requests probably means installation of new software systems and/or more expense for third party providers. These additional requirements just take that much more time and energy that could be focused on our customers and communities. Community banks are already being sliced and diced to the nth degree under current regulations. We are a main street home town business, we do not require a Harvard Education for the things that we do and we do not function anything like Wall Street or big multi-national financial institutions. Operating a community bank does require the desire to provide services for our customers in our local communities and to become a member of the local business located there. Adding to compliance costs will pull money out of capital and earnings rather than providing for our customers. Compliance costs for community banks are already leading to more consolidation in the industry. BASEL III, as proposed, will only accelerate this trend.

Regulators may not be troubled by a country with only a handful of banks. But from our perspective, community banks still serve a vital function across America, in our home towns and on our main streets. What a shame to see these proposed new international capital requirements help lead to their demise.

Thank you for your consideration.

Sincerely,

H. Gary Blankenship
Chairman and C.E.O.