October 6, 2012

Federal Deposit Insurance Corporation
comments@FDIC.gov
Subject: **Basel III FDIC RIN 3064-AD95, RIN 3064-AD96** and **RIN 3064-D97**

Board of Governors of the Federal Reserve Board
regs.comments@federalreserve.gov
Subject: **Basel III docket No. 1442**

Texas Banking Commission
executive@dob.texas.gov
Subject: Proposed regulation – **Basel III and Texas Community Banks**

Dear Ladies and Gentlemen:

From my experience as board member in three small Texas banks in three different communities, I believe it would be difficult for regulators to plan an environment more hostile to community banks than that which will result from implementation of Basel III as now proposed, combined with existing conditions. Here, in brief, are some of the problems -- first existing conditions and then the proposed regulations:

Existing Conditions --

- Existing regulation is so complex and so all encompassing that even after designating one person in a bank as a "compliance officer", conducting extensive employee training, and engaging multiple different kinds of expensive outside auditors (one bank where I serve has 5 different kinds of auditors!), bankers find it almost impossible to be free of regulatory criticism and threats of fines or other regulatory action. If you doubt this statement do one of the following:
    - Go to your files and read any three bank examination reports selected at random, or
    - Thumb through the stack of documents a bank is required to prepare and a borrowing customer, supposedly, is to read before completing a home mortgage loan.

  The amount of time and money spent attempting to adhere to all government regulation is anyone's guess?
- Recent regulation related to bank fees for non-sufficient-funds checks and bank debit charges have hammered bank profits crushing a bank's opportunity to grow and support community growth.
- Actions by the Fed to drive down interest rates have made it impossible to make money investing in securities. Bankers invest in securities for one of two reasons: 1) to maintain liquidity, 2) to profitability employ customer deposits for which there are no bankable loan requests. The predictable outcome from this period of unprecedented low rates is that in their attempts to generate revenues sufficient to cover expenses many banker will compromise the safety and soundness of their banks by:

- Investing in securities with maturities that assure a large and unavoidable loss once interest rate begin to increase, or
- Making loans which should not be made because of credit quality or insufficient rates charged to borrowing customers because of competitive conditions resulting from a bank pricing war.

Proposed Regulation

Now a look forward to the proposed new regulation: Forcing these new rules on community banks further epitomizes an unnecessary and costly regulatory burden with virtually no benefit to the safety and soundness of the banking industry as a whole. These rules were drafted for larger, more complex systemically risky financial institutions. Historically, large banks have been required to hold much less capital as a percentage of assets than community banks. **Community banks should be exempted from these proposed rules.**

These new proposed rules will only serve to exacerbate already unacceptable compliance cost. No doubt, even more outside consultants, labor, systems and software will be needed to comply with these complex new capital rules. Since community banks are not able to use the capital markets to raise equity for growth, we rely heavily on organically generated and retained profits to augment capital. **Obviously, increased compliance costs are a threat to profit, the primary source of capital for most community banks.**

The inclusion of unrealized gains and losses in security portfolios in Tier 1 common equity capital is of grave concern to me. Why would we mark-to-market only a portion of the balance sheet of a bank? It makes no sense to arbitrarily decide that one particular asset category should be treated differently for capital purposes than any other balance sheet category. For community banks, securities purchases are for the long term and are typically held to maturity. We, like most community banks, do not actively trade our securities. Community banks are investors in issuances of local and state government and school district debt. The borrowing costs for these local government entities will likely rise under these proposed rules as banks become less likely to hold longer maturity bonds for fear of rate-driven capital volatility. And, given the current rate environment it is especially worrisome to consider that when rates rise --*and they will rise* -- our capital would immediately be impacted at a time when our local economies need us the most to be ready and able to lend and support growth. **I am opposed to the proposal to include Accumulated Other Comprehensive Income as part of Tier 1 common equity capital.**

The proposed rules include complicated risk weighting guidelines for various assets. Implementing these complicated rules will require increased labor, systems and software costs. **But, I am mostly disturbed by the changes to risk weightings for mortgage and real estate loans, especially since we keep most nearly all mortgages "in-portfolio" as is common in the community banking model.** Regulatory guidelines already in effect and recently enacted have dampened our enthusiasm for supporting the financing of homes in our markets. These new rules such as escrow requirements, balloon note limitations, appraisal standards, and additional disclosures do nothing to reduce risk to the safety and soundness of the system since we make loans to our friends and neighbors in markets we understand intimately. Most community banks already have an extremely low default rate on in-portfolio mortgage loans. Community banks have been the best source for home financing in rural markets for well over a century. Big banks and mortgage companies have no interest in the small rural homestead located in central Texas. If community banks get out of that business there will be a significant decline in the value of homes in rural communities since there will be no reasonably priced lending source for those loans. **I am opposed to the proposed Risk-Weightings for mortgage loans.**

At one of the banks where I serve as a director, five years ago we were thrilled to be able to tap into the Trust Preferred Securities (TruPS) market and raise $2Million at our holding company level that was 100% invested in the capital of our bank. This low cost source of capital provided support for needed growth in the bank that ultimately benefited our local markets with more loans. The Dodd-Frank carve-out for community banks on disallowing TruPS in Tier 1 capital was appropriate and necessary. It is unconscionable that you now propose to undo the will of Congress, our elected legislative branch, to disallow this low-cost source of capital for our bank. **I am opposed to the proposal to disallow TruPS as Tier 1 capital.**

As proposed, the new Basel III capital requirements will require us to change internal reporting systems, incur costly software enhancements, hire more outside consulting help, provide more training for our staff members, and require additional energy and focus from our Board and management. None of those things will do anything to benefit our customers and our local economy. These increased compliance costs will pull money out of capital and earnings rather than help us make more loans to assist getting our country bank in gear. These proposed *international* capital rules have no place in the community banking industry of the United States of America.

I urge you to exempt community banks from this harmful and unnecessary new regulatory burden.

Sincerely,

Jack Griggs
Bank director Texas Heritage Bank, Boerne, Texas
Bank director The First State of Abernathy, Abernathy, Texas
Bank director Liberty Capital Bank, Addison, Texas