PEOPLES BANK
People That You Know.

August 27, 2012

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

Re: Comments on Docket No. R-1430; RIN No. 7100-AD87 and Docket No. R-1442; RIN No. 7100-AD87

Dear Ms. Johnson:

As requested by the Federal Reserve, I am writing to comment on behalf of Peoples Bank, Lubbock, Texas (FRB District/ID_RSSD 11 / 819855) regarding the two (2) above dockets whose comment due dates are September 7, 2012.

Time and space does not allow me to comment on all that is inherently wrong with these proposal(s). As Camden Fine, ICBA President stated on a Fox Business interview on 8/20/12, "So even a little $50 million–asset bank would have to comply with Basel III, and that's just insane." While we are not a $50 million dollar bank, the same theory applies for our bank at $290 million dollars. We should only be required to adhere to current Basel standards, along with consideration still given for trust preferred securities based on our stability of operations over many years.

Our specific comments on Basel III are as follows. We offer, where appropriate, evidence that this is just another unnecessary and punitive regulatory burden on community banks.

1. In conjunction with other existing and proposed regulations, Basel III jeopardizes the community banking model. Regulators, legislators and other forces have introduced an unmanageable risk to the community banking model. It's called "Regulatory Risk." Mind you, this is not risk from regulators regarding your current management decisions and operations. Rather it is risk from "unknown and undefined future regulations" and their arbitrary and capricious application that will lead banks to consider giving up and selling out. If the intent is to drive community banks out of business, it is working. Just the time spent trying to understand this proposal to comment on it demonstrates most community banks will not have the time or wherewithal to comply. More important to note is

5820 82nd Street • Lubbock, Texas 79424 • (806) 794-0044 • Fax (806) 794-9262

Europe does not have a vibrant community banking industry providing a substantial amount of small business and consumer credit. However, the Federal Reserve seems intent on trying to broadly impose a capital model meant for the largest, and most complex banks in Europe and the U.S. Just more support for Mr. Fine's "insane" statement.

2. Basel III should not apply to community banks whose activities are simple in nature and have proven to historically stand up in any credit cycle. We successfully negotiated the 2008 crisis by looking ahead and seeing the poor lending practices of the industry and decidedly not following those bad actions. Moreover, we have historically been "well capitalized" because of our own desire to maintain a high level of capital. Under 3 different scenarios for the proposed standards that I modeled (Growth, Dividends and Profitability), we remain well-capitalized. However, that is little comfort as the level of cushion for Total Risk Base Capital is reduced by 150bp or more, simply because of the restrictive definitions of capital and the increased risk asset weightings. Consequently, it may cause banks like us to have to re-evaluate the types of customer loans we make, investments we carry or customer services we offer. All of this because others couldn't/wouldn't/didn't manage <u>their</u> risks appropriately. Banks who don't manage their risks should carry more capital, but the industry as a whole shouldn't be made to pay up to prevent future bad actors. Deal with those on an individual basis as current regulations allow.

3. The current risk weights applied under the proposal are both unnecessary and time consuming. A typical community bank will not have the time, resources or capabilities to track the assets LTV from inception. Moreover, this emphasis on LTV is contradictory to years of examiner emphasis on cash flow analysis and lending. Collateral is only one aspect of the credit transaction and if all we look at is LTV; we may well become collateral lenders again. Banks are already burdened with regulations and lower margins will have to carry additional personnel and overhead expenses. Finally, these assets have never even approached the level of risk or potential for loss that are anticipated in the current weightings, much less the proposed regulations.

4. The inclusion of Accumulated Other Comprehensive Income (AOCI) is yet one more risk now introduced to the banking model. Whereas community banks have long held investment portfolios as prudent earning assets and secondary liquidity, the emphasis on market value will cause more and not less capital volatility. We currently have a $41 million dollar investment portfolio and a 1-3% change in the rates could impact us by $410 thousand to $1.2 million dollars. This market change and its reflection in capital could make it appear we need more capital even though we haven't sold those securities and historically use these investments for liquidity needs associated with our agricultural borrower base.

Also, in conjunction with the timeframes and anticipated moves by your organization in 2015 for interest rates, this may lead to a severe decline in prices. A self-fulfilling prophecy of capital troubles for community banks for investments that are normal course of business for them. (Community banks can't even go out and hedge this risk (although TBTF banks) can, as this is considered "too risky" for them.)

5. Trust Preferred Securities (TPS) were specifically grandfathered under the Collins Amendment to Dodd-Frank. However, it appears the Fed has legislated this to apply to all banks, regardless of the $10 billion carve-out. One Fed employee, on a Kansas City Fed seminar panel on Basel III stated, "The legislation didn't prohibit us from eliminating it from all banks, and so therefore we did." The community banking industry specifically fought for the Collins Amendment because of limited access to Capital Markets. And, community banks have prudently used TPS to bolster their bank's balance sheets to aid in meeting legitimate community credit needs. We don't think the Fed needs to be legislating something that the Congress clearly intended for community banks to be able to keep.

Thank you for your time and consideration of this very important matter to Peoples Bank and the community banks in the United States. Your decisions on this matter will determine the future direction and fate of many small community banks. We trust this will weigh greatly in your deliberations and your ultimate rulemaking.

If I can be of any further assistance in providing insight into Basel III's impact to community banking, please do not hesitate to contact me.

Sincerely,

Jon D. Drake

Jon D. Drake
Sr. EVP & CFO
Peoples Bank
5820 82nd Street
Lubbock, Texas 79424
Phone: 806-794-0044
Fax: 806-771-2268
Email: jdrake@peoplesbanktexas.com

Cc: The Honorable John Cornyn
Senator, State of Texas
517 Hart Senate Office Bldg.
Washington, DC 20510
Main: 202-224-2934
Fax: 202-228-2856

The Honorable Kay Bailey Hutchison
Senator, State of Texas
284 Russell Senate Office Building
Washington, DC 20510-4304
202-224-5922
202-224-0776 (FAX)

The Honorable Randy Neugebauer
Representative, District 19
1424 Longworth HOB
Washington, DC 20515
Phone: (202) 225-4005
Fax: (202) 225-9615

Christopher L. Williston, CAE
President and CEO
Independent Bankers Association of Texas
1700 Rio Grande, Suite 100
Austin, Texas 78701

Eric Sandberg, President and CEO
Texas Bankers Association
203 W. 10th St.
Austin, TX 78701

Camden R. Fine, Independent Community Bankers Association,
President and CEO
1615 L Street NW, Suite 900
Washington DC 20036
Phone: (202) 659-8111
Phone: (800) 422-8439

Frank Keating, President and CEO
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, DC 20036
1-800-BANKERS

Charles G. Cooper, Commissioner
Texas Department of Banking
2601 N. Lamar Blvd
Austin, Texas 78705
Phone: (512) 475-1300
Toll Free: (877) 276-5554
Fax: 512-475-1313