Point Bank

MEMBER FDIC

A Better Way to Bank

September 12, 2012

The Federal Reserve Board
E-Mail regs.comments@federalreserve.gov

RE: Basel III docket No. 1442

The new proposed Basel III docket No. 1442 will have a negative impact on all banks and more particularly community banks. There are three areas in Basel III that PointBank believes will be significant and will have a potential negative impact. They are as follows:

1. **GET 1**The proposal that all unrealized gains and losses in available for sale securities (AFS) "flow through" to common equity tier 1(using the acronym GET 1) This proposed rule will cause significant volatility in capital calculations.

   PointBank has $351,645,000 in assets and at this time has approximately $121, 000,000 in AFS securities. How should our bank deal with this proposal, especially when interest rates rise again? Will we 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. Should we limit our investment in longer duration assets? How will this affect local governments and the housing markets? This proposal could cause a number of banks to sell all or part of their AFS portfolios. Have federal regulators considered what impact this will have on the markets for those securities? 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 segment of the financial services industry.

   The most likely result of this proposal will be an increase in employee time to monitor our AFS portfolio. This may also require us to purchase software to stay in compliance. Both would lead to less time and service for our customers and additional cost.

2. **Risk-weighting for home mortgages**. This proposal assigns risk weights for residential mortgages based on whether they are "traditional mortgages" in Category 1 or "riskier" in Category 2

   Our bank has $351,645,000 in assets with approximately $17,727,000 in mortgage assets. Our 12 employees provide mortgages in seven regional cities and multiple smaller communities.

   The most likely result of this proposal is that it will cause us to raise capital. Our earnings will also be impaired. Our regulatory burden will increase. Most importantly, it will limit the availability of mortgages in the communities where we offer loans.

   It also appears that the proposal will play into the hands of the large, multistate lenders to the detriment of community banks.

   Rural borrowers in Texas, due to recent federal laws, are already confronting a market in which banks are making fewer mortgage loans. This proposal will only make it worse.

3. **Regulatory Burden.** Our bank has in excess of $351,000,000 in assets, as previously stated and 120 employees. We are already laboring in an environment involving increased regulatory scrutiny in compliance exams and the new burdens being place on us by the Dodd-Frank Act. Our compliance costs alone have increased in excess of 200% in the last 10 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 probably 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.

Sincerely.

David Fuller
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