VANTAGE BANK
TEXAS

October 18, 2012

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219
Docket ID OCC-2012-0008, Docket ID OCC-2012-0009

RE: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action; and Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

Dear Sir or Madam:

Vantage Bank Texas, National Association, is a non-public, $275 Million in Assets, and an independent community bank, located in four very distinctive communities in Texas, and supporting 6 locations.

We submit these comments in response to the requests for comments in the notices of proposed rulemaking (NPR) on minimum regulatory capital and the standardized approach for risk-weighted assets titled: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action; and Regulatory Capital Rules:

Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosures

Exempt community banks. The Basel III proposals were intended for large, sophisticated financial institutions competing with others of a similar scale across the globe. We are troubled that our own U.S. regulatory authorities would include community banking in this complex new capital scheme. These new capital proposals are an unnecessary and costly regulatory burden that will result in damaging unintended consequences, including, but not limited to further consolidation of the industry.

We recognize the importance of appropriate levels of capital as a key component of a safe and sound bank and banking system. We have a vested interest in a healthy community banking system. Required maintenance of adequate levels of capital is good for all banks and the country as a whole and community banks are already leaders in maintaining high quality capital. Our concern is the burdensome process and consequences of instituting complex new rules on community banks, without resulting in a significant benefit. We do not believe it is necessary or appropriate to redefine capital adequacy for all banks, regardless of size or risk profile, to accomplish the goal of adequate capital.

For the very reason that the agencies have proposed these rules –the safety and soundness of the industry –our community bank should be exempt from these proposals and allowed to continue to measure capital according to present methodology.

Compliance Burden, Competitive Disadvantage, and Other Issues with this Proposal

Compliance with the plethora of current and upcoming regulations is and will be taxing on our Bank for years and in a variety of ways, with damaging unintended consequences on all small community banks:

1. The ever-increasing level of regulatory burden has our resources stretched to the limits, and we are struggling to a means to absorb the increasing cost of compliance to remain a viable bank and have a long-term future.
2. If these proposals are applied to community banks, we may decide that the barrage of federal law and regulatory burden has rendered profitability unsustainable, and at a minimum place us in a severe competitive disadvantage.

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3. The ongoing and complex collection and reporting of information on various asset categories required by the proposed rules will further tax our limited resources.
4. The added cost and time needed to comply with these provisions—without benefit to the Bank or the public – are reasons enough to exempt us from this proposal.
5. The agencies' attempts to modify the capital landscape by applying a one-size-fits-all approach for all banks undermines the fact that community banks operate under a very different business model from the larger banks.
6. When reviewing the size, complexity, and scope of community banks, it should be very clear to the regulators that community banks do not have the resources to be viewed as a large mega bank.
7. Creating a new series of regulatory burdens in addition to what already exists today can only have negative consequences to community banks that are already struggling to compete with the large mega banks.

Accumulated Other Comprehensive Income (AOCI). The historically low interest rate environment will create issues for our bank. We may very well face potentially significant unrealized losses in our securities portfolios when rates rise. This could easily place change our capital position from a well-capitalized bank to one that is facing severe sanctions due solely to market rate movements.

Further, the "mark to market" requirement will require us to hold more capital to compensate for inevitable swings in interest rates, thus hindering growth and lending opportunities. We will be hindered further by being unable to effectively hedge interest rate risk in our portfolio, or even to effectively compete head-to-head with the large mega banks.

We invest in issuances of local governmental entities (municipals). The cost of borrowing for these public entities will likely increase as we will be reluctant to hold longer maturity securities for fear of rate-driven capital degradation. This could result in significant negative impact on infrastructure development at the state and local level as well as harm to projects that create jobs in the local communities we serve.

We are long-term investors and do not actively trade in the securities portfolio. Inclusion of unrealized gains or losses in the securities portfolio is only meaningful in a liquidation scenario. The proposed changes, incorporating market rate swings into Common Equity Tier 1 capital, will result in our moving to shorter maturities, giving up precious earnings opportunities, experiencing limited flexibility in managing our portfolio, sacrificing liquidity by moving securities to the "Held to Maturity" bucket, limiting loan growth, and forgoing expansion.

The inclusion of AOCI on the balance sheet is driven by accounting rules that provide for fair value measurement. However, we manage fair value risk (namely, interest rate risk) on an economic basis through robust asset-liability management with heavy regulatory oversight. In addition to the increased volatility, adding one piece of the asset-liability equation to regulatory capital without fully considering the entire mix of assets and liabilities provides a false sense of capital adequacy. In addition, we will need to allocate additional capital to the investment portfolio to ensure that the risks associated with increased volatility are properly covered through additional cushions.

To mitigate the volatility caused by changes in AOCI, we will be forced to hold our investment securities with an amortized cost designation for accounting purposes. Due to the complexity of the accounting rules surrounding these investments, they can never be sold except in the rarest of circumstances without jeopardizing our ability to hold these investments at amortized cost in the future. This action will further decrease available liquidity while adversely impacting demand for investment securities for all market participants.

Risk Weighting will be challenging, expensive, and a disincentive to mortgage lending by community banks. Assigning proposed risk-weightings to various assets will be an expensive and time-consuming undertaking, and:

1. Will require additional staff and expensive software.
2. Will serve as a disincentive to mortgage and real estate lending at community banks, especially loans kept "in--portfolio" as is common in the community banking model.
3. Particularly harmful to us is the punitive impact of changes to balloon mortgage loans and all second liens including home equity lines. These loans provide solid financing alternatives to home loan borrowers in underserved and rural communities and play a large role in shaping the local economies of the communities in which the loans are originated.
4. Our lending practices and strategies, which focuses on tailoring loan products to the specific needs of the customer, is a powerful force in small business formation and growth that fuels job creation. As relationship-based lenders, we

possess the local expertise needed to complete quality underwriting for these loan products and provide forms of financing that large mega banks will not and do not offer.

5. The introduction of "High Volatility Commercial Real Estate" (HVCRE), with a 150% risk weighting and limited exemptions, will also limit our willingness to make these loans and raise borrowing costs in this already challenged market.
6. Will further depress residential and commercial real estate lending will result in additional harm to an already shaky rural real estate lending market.
7. Specific allocations of capital are made for higher risk, classified, past due and non-accrual loans. However, the proposal does not allow for adequate inclusion of the allowance in the determination of regulatory capital.
8. The allowance represents the first line of defense against harmful credit loss and it properly represents an allocation of capital to meet that objective. Yet the proposal continues to cap the allowance while ignoring its importance by not elevating at least some component as higher tier capital.
9. This particular point in the economic cycle would appear to be perhaps the worst time possible for regulatory policies that result in disincentives for us to fund properly underwritten real estate loans.
10. While perhaps well-intentioned, these changes will either limit choices or raise costs for the consumer.
11. The resultant increased market share and concentration of residential real estate mortgage loans in the largest large mega banks and financial institutions is simply not healthy for our economy.

Trust Preferred Securities (TruPS) is specifically allowed by Dodd-Frank. Dodd-Frank allows entities with under $15 Billion in assets to count TruPS as Tier 1 capital (the "Collins Amendment"). This sensible amendment was a major legislative victory for community banks, and they use this regulator-approved hybrid capital vehicle. The proposal appears to directly contradict the will of Congress.

While economic conditions have impacted earnings and ROE potential, much of the challenges we face in raising additional capital are a direct result of regulatory and legislative actions. Diminished expectations for earnings results in more difficulty attracting additional capital, dilutes existing shareholders and makes any capital acquisition significantly more costly. The proposal should follow federal law and allow those entities with under $15 Billion in assets to allow their TruPS to continue to qualify for tier 1 capital and follow their original scheduled maturities.

Mortgage servicing asset deductions from capital could impact mortgage availability. Mortgage servicing assets (in excess of 10% of Common Equity Tier 1) will face new deductions from capital. Further, capital would be required against assets with credit enhancing representations and warranties, including mortgages sold to Fannie Mae, Freddie Mac, and third party aggregators. This is one more potential hurdle and expense that could impact the cost and availability of mortgages to consumers. This severe penalty is an attack on the high-quality nature of community bank servicing that ignores the fact that community bank mortgage loan servicers work diligently with borrowers to resolve payment problems to achieve a more favorable outcome for the customer.

Capital treatment of deferred tax assets, goodwill, and pension accounts. There are new complex restrictions and limitations on capital treatment of deferred tax assets, goodwill and pension accounts. Further, a proposed financial accounting standard requirement to capitalize certain operating leases would increase risk weighted assets, and thus the level of required capital. There have been concerns raised that these proposals "change the rules", and could prove problematic.

Conclusion

1. We are becoming overwhelmed by government regulation, and this proposal unnecessarily piles on additional regulatory burdens, exorbitant costs, will result in damaging unintended consequences to an already fragile economy, and for community banks very real concerns of remaining an independent viable bank for our community, customers, employees, and shareholders.
2. These proposals will place our Bank in a very distinctive competitive disadvantage with large mega banks.
3. Ultimately, these burdens will lead to higher borrowing costs and diminished availability of both credit and bank services to consumers, small businesses, and local governments.
4. Though this proposal is counterintuitive regardless of the state of the national economy, the current tenuous state of the national economy makes it especially counterintuitive.

5. The logical approach would be to exempt all but those complex international banking institutions considered "systemically important" (large mega banks) from these burdensome, elaborate, and counterproductive capital rules.

6. Community banks should be allowed to continue using the current Basel I risk weightings as they have and will continue to serve banks, customers, and regulators very well. Community banks already maintain a larger percent of capital as a percent to assets than do the large mega banks.

Thank you for the opportunity to comment on these proposals.

Sincerely,

Guy Bodine

Guy Bodine, III
Chairman of the Board, President, and CEO

CC:

Jennifer J. Johnson, Secretary,
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Docket No. R–1430; RIN No. 7100–AD87, Docket No. R–1442; RIN No. 7100–AD87

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