GUARANTY BANK & TRUST CO.

DELHI • EPPS • OAK GROVE • RAYVILLE • START • TALLULAH

August 30, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

We appreciate the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Our bank operates primarily in a rural area of northeast Louisiana. In addition to our main office we operate seven (7) branches. Our asset size is $140 million and we offer personal, commercial and agricultural loan products. We are a highly profitable Sub Chapter S bank that maintains strong capital and a very high quality loan portfolio (Texas ratio is less than 1%).

We have determined that the requirements of Basel III will have a significantly negative impact on our bank in a number of ways.

- The risk weights on residential mortgages will be extremely punitive to our bank since most of our residential mortgage loans include balloon provisions. The use of balloon notes enables us to better manage our interest rate risk (which regulators require). Why should these type loans be penalized? What is it about balloon notes that would suggest that they should have a higher risk weighting? Most community banks such as ours have very few tools available to manage interest rate risk, but balloon notes are very useful. Even so, most mortgage regulations that have come out recently have included attacks on balloon notes. Now, it appears that Basel III is attempting to classify this particular type of loan as being more of a risk than other type of loans. The lack of an effective interest rate risk program in a community bank is much more of a risk to that bank than the existence of a balloon provision in a loan. If balloon notes are to be considered anathema to regulators, will they now expect community banks to invest in very expensive, less useful interest rate risk programs? We see this provision of the rules as being specifically anti-community bank.
- Our current data system does not track loans on the basis of LTV. We are not sure what it will cost to adjust the system to provide this data, but we are under no illusions that it

will be inexpensive. Our small bank has approximately 2,000 loans, all of which would have to be reviewed and risk weighted. The costs of this in money and time will be a significant expense to our bank, and greatly reduce our efforts to make new loans.

- The complexity of the capital calculations is almost unbelievable when applied at the community bank level. If one has any basic understanding of how a community bank operates on a day-to-day basis he/she would be hard pressed to find any advantage to such calculations. The current method of calculating capital has worked extremely well at the community bank level. Why does it need to be changed unless the purpose is simply to make it more complicated? The capital problems today and in the future rest with the banks that are too big to fail, yet Basel III does nothing to address that issue.
- As a Sub Chapter S bank we will be adversely treated by the Basel III requirements should our Capital Conservation Buffer fall below 2.5%. In such a case, we would be limited as to any distributions to our shareholders who will need the distributions in order to pay the federal and state income taxes that will be due on each shareholder's ratable share of the bank's taxable earnings. Banks that operate under a regular corporate structure are permitted to pay their federal and state income taxes in the same manner as they pay any other expense regardless of their Capital Conservation Buffer. This will be a huge issue with many Sub Chapter S community banks, and will require some to seriously cut back on lending activities in order to preserve and/or maintain the capital percentages that are required in order that distribution limitations not be imposed. Treating all banks the same is evidence plenty that whoever is responsible for the development of Basel III failed to study the industry well enough to know that all corporate structures are not the same. And why call this a "capital conservation buffer" when it is really nothing more than additional capital?
- The risk weighting relative to the investment in the stock of other financial institutions is completely unfair to community banks that have joined other community banks to capitalize bankers bank that serve them as a non-competitive correspondent. This is an example of changing the rules in the middle of the game. If a particular financial institution's stock value declines why not simply require the community banks that hold that stock to write it down or off, depending on the condition of the financial institution that issued the stock? Under Basel III all of these bankers banks are being treated as being of the same risk and this is not right. Why not require the "too big to fail" banks to hold much higher capital levels to cover those high risk activities in which they all engage? Better yet, why not simply require that those risky activities be discontinued and removed from the umbrella of the bank's operations?

It is very difficult to believe that those who put forth regulations such as Basel III do so from a position of true knowledge as to how community banks operate. While Basel III seeks to avoid the financial debacle that our country and most of the rest of world went through recently, by requiring community banks to comply with its provisions, these same regulators fail to recognize that community banks were NOT part of that problem! In fact, one of the biggest contributors to the financial debacle was the fact that many financial institutions operated under the concept of "too big to fail" and, again, Basel III does absolutely nothing about this. Our managers come to work every day knowing that if we fail to do our job the regulators will close our bank; the same is not true for the large banks and for that reason those banks should operate under more strict and more complex rules than our small bank. In fact, as soon as the regulators guarantee community banks that the large banks will be treated the same way that the community banks are treated, then and only then should there be only one set of rules.

In conclusion, Basel III will cost our bank significantly, both in time and in additional expense. We can find absolutely no reason why our bank or any community bank should be required to meet the standards of Basel III, and we implore the regulators to exempt community banks from this new set of regulations that are so unnecessary. Time and again we have heard from Federal Reserve officials that something has to be done to help community banks deal with the ever increasing regulatory burden; exempting community banks from Basel III would be a very good place to start!

.
Again, we appreciate the opportunity to offer our comments on this subject.

Sincerely,

Albert C. Christman
President and
Chief Executive Officer