ARVEST®

February 2, 2010

Mr. Robert E. Feldman
Executive Secretary
Attention; Comments
FDIC
550 17th Street, N.W.
Washington, D.C. 20429

ADVANCED NOTICE OF PROPOSED RULEMAKING
EMPLOYEE COMPENSATION

Dear Mr. Feldman:

Please accept this letter as comments from Arvest Bank with respect to the above noted Advanced Notice of Proposed Rulemaking.

Arvest Bank is an Arkansas-chartered bank regulated by the Arkansas State Bank Department and the Federal Reserve Bank of St. Louis. The bank is a retail community bank with over 220 full-service branch locations in Arkansas, Kansas, Missouri and Oklahoma. The bank is owned by Arvest Bank Group, Inc. which is privately-held with significant involvement of principal shareholders.

Our comments regarding the proposed rule are as follows:

1. Adjusting FDIC deposit insurance premiums based on the nature of employee compensation programs is questionable and, we believe, ill advised. Employee compensation programs are rightfully a subject of safety and soundness examinations and taken into account in establishing the CAMELS rating, especially the "M" element for Management. This is fundamental. However, extracting one consideration from the "M" component and elevating it to the level of directly affecting premium assessments is inappropriate without clear cause-and effort documentation and a broad consensus;

2. Evaluation of the effectiveness of employee compensation programs is very complex and subjective in nature. Compensation is at the heart of the relationship between employer and employee and directly reflects the values and culture of the bank. We believe that guidelines to assist regulatory examiners in their assessment of compensation programs in the evaluation of the "M" component could be helpful. However, much work is needed by the bank regulators and the banking industry to develop useful guidelines.

The lack of well-conceived and thoroughly established standards and guidelines subjected to field tests in an examination environment, we believe, is ample reason not to implement new premium assessment elements.

However, even if standards and guidelines are developed and tested, we believe these are best used by examiners in their supervisory examinations rather than a separate component of the premium assessment. Such standards and guidelines should be an inter-agency consensus and not a unilateral action by any one agency.

3. In the proposed rulemaking, the FDIC states on page 5:

> "Employee compensation programs have been cited as a contributing factor in 35 percent of the reports prepared in 2009 investigating the causes of insured depository institution failures and the associated losses to the DIF."

This is striking that the FDIC Board would seek to separate out a "contributing factor" for special consideration in assessment rather than a "principal factor". We would expect that 100% of bank failures result from weak asset quality or lack of liquidity.

We do not believe it is good practice to cherry-pick "contributing factors" and ignore "principal factors". Doing so sets a dangerous precedence and opens the FDIC assessment process up to political pressure.

4. Potential Feature 1 would limit compensation arising from meeting performance goals to restricted stock that comes available over a period of years. Requiring issuance of stock is problematic whether a bank is privately-owned or publicly-held. This is nothing less than a mandate from the federal government to dilute ownership and to bring in new shareholders. Such mandates are highly undesirable and would be a dictum by the federal government as to how a bank can pay its employees. Furthermore, stock awards subject the employee to risk of ownership unrelated to the employee's performance. If the objective is deferred payments over some periods then compensation programs can easily incorporate deferrals in cash payout plans.

Finally, there are many performance goals that are loosely at best related to future results of the bank as opposed to current results. For example a goal may be to conduct a special study of the bank's performance as compared to peers. In another case, a goal may relate to achieving a certain level of employee turnover. A servicing manager might have a goal based on customer satisfaction levels. To require this compensation to be deferred over time does not achieve any useful supervisory purpose.

5. Potential Feature #2 dictates a look-back period to account " … for the outcome of risks assumed in earlier periods". Similar to comments in Item 4 above, many performance goals have little traceable (or measureable) carryover to future

periods and a mandated deferral of payment is unfair to the employee. The design of appropriate look back periods is a difficult task so as to be fair to both employees and the bank.

6. Potential Feature #3 mandates (a) compensation programs be administered by a committee of independent directors and (b) use of independent compensation professionals.

First, there is no existing statutory or regulatory requirement that banks have independent directors. While that is often the case, many privately-owned banks do not have outside directors. This feature would result in the federal government effectively over-riding state laws that govern state-chartered banks as well establish new requirements for national banks and federally-chartered thrifts.

Second, requiring use of third party consultants should not be required. This results in a new level of expense in having third party reviews of plans, preparation of reports, attendance at meetings, etc. While compensation consultants are often very helpful in initial plan design and periodic updating, an ongoing engagement would be overkill for the vast majority of banks.

In summary, we believe the proposed rulemaking should be withdrawn. We believe a better approach to addressing employee compensation is an inter-agency project with banking industry input to develop useful and reasonable guidelines helpful both to examiners in their supervisory function (and ratings) and to banks in considering and administering employee compensation programs.

Please do not hesitate to call the undersigned should you care to discuss our comments.

Sincerely,

J. Robert Kelly

J. Robert Kelly
Executive Vice President

cc: Ms. Candace Franks, Commissioner
Arkansas State Bank Department

Mr. Edward Yingling
American Bankers Association