



October 4, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

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:

Thank you for 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.

Patriot Bank is a small community bank located in Tulsa County, Oklahoma. The Federal Reserve Bank approved the acquisition of a former troubled bank in 2009 when our investor group saw a need to provide quality banking services in our community. We have approximately \$90 million in assets and we employ a staff of fifteen people. Strategically our bank serves three primary markets: small business commercial lending, government guaranteed lending, and short-term fundings of 1-4 family mortgages for a third party mortgage company until they are sold (classified as loans held for sale). The Federal Reserve Bank in essence treated our bank as a de-novo bank by requiring us to maintain a Tier 1 leverage capital ratio equal to or greater than 10% for five years. We have successfully complied with that requirement.

While we understand the rationale behind the Basel III proposals, we feel that the proposals are excessive for community banks such as ours and they are the result of more complex problems created by large money market/global banks.

Specifically we would note the following areas which we feel create undue burdens on community banks such as ours:

- 1-4 Family Residential Mortgages
The assignment of new risk weights varying from 35% to 200% based upon loan to value percents. The majority of our 1-4 family mortgages are classified as “held for sale” with an estimated life not to exceed sixty days. Any loans which haven’t been sold to the secondary market in 45-60 days are contractually sold back to the originating mortgage company without recourse. These loans historically have had a 50% risk weight and they are primarily funded by mortgage deposits which in essence makes them a low risk short-term investment for our bank. We have closed and subsequently sold over \$284 million in mortgage loans in the last eighteen months without a loss.
- Requiring Available for Sale Unrealized Gains and Losses to Flow through Capital
Current industry mark-to-market default factors on AFS CMOs frequently reflect unrealistic monthly fluctuations which do not represent real indications in the market. If these fluctuations are reflected in actual earnings and ultimately in capital, they will provide misleading information to bank management, boards, and investors. One possible alternate result would be for banks to classify the securities as “held to maturity”, resulting in keeping them on the balance sheet and exposing the bank to undesired long-term interest rate risk.
- Assignment of RWA Factors to Individual Loans
The proposed assignment of risk weighting factors to individual loans will create additional administrative costs and issues for banks. This will be compounded through the need for hiring additional staff and outside consultants. There will be a need to develop combinations of manual spreadsheets and core system programming enhancements from third party processors who will eventually pass those costs on to their bank customers. Preliminary inquiries to our core processors indicate that they cannot even begin the modifications to their systems until they understand what they are and that they are final. Even inquiries to our primary regulator have resulted in them saying “they are still trying to understand the proposals themselves”.

We are concerned that the proposed capital rules could exacerbate the funding challenges community banks have had with little or no access to capital markets. For example, the proposed rules are extremely complex and require the reporting and maintaining of granular data, greatly increasing the compliance burden on community banks. In fact, some small banks such as ours may be unable to service the future needs of communities they serve because they simply do not have the resources to meet the new compliance obligations. In addition, the new increased capital requirements for U.S. Treasury and other securities that banks hold in their investment portfolios, could impact how small banks manage liquidity and interest rate risk.

We are also concerned that these changes could have significant unintended consequences for community banks. The proposed rules could make it even harder to raise needed capital. Community banks such as ours may even have to change their business plans as a result of the rules, thereby reducing lending and economic growth in the communities in which they serve.

Some questions that we have and hope that you will seriously consider include:

- As you developed Basel III proposals, how did you measure the impact it would have on the industry's smallest institutions?
- Did you determine whether the added cost of these regulatory changes would be justified by commensurate improvements in the safety and soundness of the financial institutions?
- If these rules are designed to protect the economy from the impacts of systemic risk, why are they being assessed on the country's smallest banks in the same way that they are on the world's largest?
- Further, as Basel III and Dodd-Frank regulations are implemented and small banks are forced to close or sell, how do you estimate this will affect the quality of life and access to capital in rural Oklahoma?
- How will the incentives for investors to invest in and capitalize new banks change as the cost of compliance with complicated regulations continue to escalate?
- If the incentives decrease, how will this impact the broader competitiveness within the banking community?
- Further, how do you estimate the expected reduction in capital will impact long run economic growth in these small communities, which are driven by small businesses?
- Ultimately, does the Federal Reserve intend to completely exempt smaller financial institutions from these regulations?

Thank you for your consideration.

Sincerely,



Michael E. Bezanson
Chairman and CEO