LIBERTY BANK
OF ARKANSAS

October 11, 2012

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Basel III Capital Proposals

Dear Acting Chairman Gruenberg:

I write today to express Liberty Bank of Arkansas' concern regarding the proposed Basel III regulations and its impact on our community bank. As you know, Arkansas is a very rural state and, as such, our state is filled with small independent community banks. Currently, there are 126 bank charters in Arkansas. Liberty Bank falls in the category of being one of the larger banks. We have 45 locations in 24 communities spread across northern Arkansas. We pride ourselves on giving personal and exceptional service to our customers and attempt to meet all of their banking needs as well as being good community partners in the communities that we serve.

Our bank definitely supports efforts to improve and enhance regulatory standards for banking organizations. However, the Basel III regulation and its impact, as presently proposed, on community banks will be overwhelming and completely inappropriate for the majority of the community banks operating in the United States. The rules are too broad and should be revised in a way that recognizes and accommodates the differences between small banks and large banks.

Some of the more troublesome restrictions that will directly impact our bank are:

NEW RULES REGARDING "HIGH VOLATILITY COMMERCIAL REAL ESTATE EXPOSURES"

Under the proposed standardized approach, each High Volatility Commercial Real Estate loan in our portfolio will be assigned a 150 percent risk weight. Today under existing

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rules, these loans are risk-weighted at 100 percent. Naturally, the proposed change results in a decrease of our capital ratio. This approach fails to account for our institution's experience and expertise in this type of lending, the adequacy of our existing policies, procedures, and the level of concentration which each bank may have within its portfolio. Taking into consideration the current slow growth that most banks are experiencing within their commercial portfolios, this proposed 150 percent risk weighting is potentially signaling banks to not engage in this type lending.

INCREASED RISK WEIGHTING FOR RESIDENTIAL MORTAGE LOANS

The risk weights applied to residential mortgages proposed will negatively affect the already struggling housing market as a whole. The new capital proposals relative to the risk weighting of residential mortgages are higher in many cases than other loan types. Our bank is struggling with a way to increase residential lending. It would be a shame to once again penalize consumers by community banks not being able to make non-conforming residential loans to many of its clients that cannot qualify for traditional conforming residential loans in the secondary market.

ELIMINATION OF TRUST PREFERRED SECURITIES AS A CAPITAL COMPONENT

Since 2005, Liberty Bank has been an issuer of Trust Preferred Securities. This has been a very cost effective source of capital and has allowed us to grow our bank and, in turn, better serve our customers. Losing this source of capital funding could adversely impact our ability to increase lending. Very directly, this will impact efforts by Congress, regulators, and banks to stimulate job growth.

INCREASED RISK WEIGHTS ON DELINQUENT LOANS

This plan calls for increasing the amount of capital we hold based on past due status of loans. We feel that the current regulatory practice of assigning loan loss reserves based on risk within the portfolio is working extremely well and already is reflective of the inherent risk within the portfolio. An additional capital requirement based on potential loan loss is not necessary and is over kill.

On October 4th, our entire Arkansas Congressional delegation sent a letter (copy attached) to you outlining their concerns with Basel III capital requirements and their impact on community banks. We applaud their willingness to step out and share directly with you, as a bi-partisan group, their thoughts regarding this matter. We all believe that the federal government should strike the appropriate balance in meeting its objectives. Basel III, as presented, does not do that.

Please reassess the Basel III proposed rules and temper the impact that this international guidance will have on the majority of America's community banks.

Thank you for your consideration.

Sincerely,

John Freeman
President

JCF/gjw
Attachment

cc: Senator Steve Womack
cc: Senator Mark Pryor
cc: Congressman Steve Womack
cc: Congressman Tim Griffin
cc: Congressman Rick Crawford
cc: Congressman Mike Ross
cc: Commissioner Candace Franks

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October 4, 2012

The Honorable Ben S. Bernanke
Chairman
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry, and Acting Chairman Gruenberg:

We write to express our concerns with the proposed Basel III capital requirements and their impact on community banks.

Over the past several months, community bankers across our state have expressed numerous concerns with the new rules and regulations they will soon face. They are allocating more resources – time and money – complying with new requirements instead of serving their customers and their communities. The largest banks may be well-equipped to take on new regulatory measures, but community banks serving rural Arkansas do not have unlimited resources.

As proposed, the Basel III capital requirements will add to the compliance burden of community banks. The new requirements will narrow the types of capital banks can have while establishing higher capital ratios and risk-weights for assets. Banks in Arkansas – indeed, across rural America – will be unable to deploy capital throughout their communities. As a result, qualified families will struggle to gain financing for their first homes and small businesses will have trouble getting much-needed lines of credit.

It is important to note that community banks are not opposed to any and all regulation. Like us, they understand the interconnectedness of the global financial system and the economy and recognize the need for rules to govern it. But we all believe that the federal government should strike the appropriate balance in meeting its objectives. Asking banks in rural Arkansas to comply with standards intended for large institutions fails to achieve that balance.

We understand and share your desire to strengthen our financial system. However, we ask that you carefully consider the unintended consequences of the proposed regulations on community banks.

Sincerely,

Mark Pryor
United States Senator

John Boozman
United States Senator

Steve Womack
Member of Congress

Rick Crawford
Member of Congress

Tim Griffin
Member of Congress

Mike Ross
Member of Congress