INTRUST Financial Corporation
P.O. Box 1
Wichita, KS 67201-5001
Telephone 316 383-1234
Fax 316 383-5818
intrustbank.com

INTRUST *Financial Corporation*

October 19, 2012

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Docket ID OCC-2012-0008, -0009 & -0010

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket No. 1442

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@FDIC.gov
RIN 3064-AD95, -AD96 & -AD97

Re: Regulatory Capital Rules:

Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

Advanced Approaches Risk-Based Capital Rules; Market Risk Capital Rule

Heads of the Agencies:

Thank you for the opportunity to comment on the proposed notices of rulemaking referenced above. Capital requirements are a critical issue for the banking industry, and issues affecting the banking industry often have a direct impact on the economic health of our communities.

INTRUST Bank, N.A. has provided banking services for 136 years. We operate principally in the Kansas and Oklahoma markets, with a majority of our customers residing in Wichita, Kansas. We have a strong commercial banking presence, but with 46 banking centers and over 100 ATMs, we are deeply committed to all consumers in our markets. The bank has a long history of active participation in our communities and we are determined to continue to be a positive presence in our markets.

Wichita is a leader in the manufacture of general aviation and commercial aircraft. As you might expect, the economic downturn has been felt particularly hard here, as the general aviation industry has been buffeted by a number of factors. It is imperative that our focus be on long-term, sustainable economic growth.

I can greatly appreciate the need for a safe and sound banking system. Having been in business for 136 years, strength and stability is quite important to INTRUST. We have approximately 300 banks in the State of Kansas, and during the most recent recession, we have seen 3% of those banks fail. While the failure of even one institution is too many, I feel the record indicates that a majority of Kansas bankers have operated their institutions quite prudently. Against this backdrop, we find ourselves confronted with voluminous, reasonably complex proposed capital rules. I'm sure I speak for many of my colleagues in asking if there might be a more simple and straightforward way to address the safety and soundness of the banking system, particularly as it relates to those community banks that did not, and are not, engaged in the speculative practices that resulted in the economic downturn.

I would like to offer the following concerns with the proposed rulemaking:

1. **Requirement that gains and losses on available for sale securities (AOCI) must flow through to regulatory capital**

   Our country is in an unprecedented period of low interest rates and the Federal Reserve has indicated they will maintain an accommodative monetary policy for the foreseeable future. Many banks currently have significant gains in their investment portfolios. This proposal would serve to increase regulatory capital in the short term. However, as interest rates begin to rise, this inflated capital would be quickly reversed and could move very dramatically in the other direction. This proposal will introduce a significant amount of cyclicality and volatility into the system. This is the opposite of what I believe the goal should be.

   Many banks, and I include INTRUST in this category, have classified their investment portfolios as available for sale, but have done so mainly to indicate that the investment portfolio serves as a secondary source of liquidity. During my 21-year tenure with the bank, INTRUST has not sold an investment security prior to its stated maturity or call date. INTRUST's reaction to this proposed treatment may be to place securities into the held to maturity category. This will eliminate the cyclicality and volatility of the proposal, but it will also eliminate our ability to include investment securities in our liquidity contingency plan.

   Requiring only this component of interest rate risk to be reflected in regulatory capital seems ill-founded. We, like most other banks, manage our interest-rate risk on an enterprise basis. Our investment portfolio comprises a minority of our interest-earning assets. To select only this component to impact regulatory capital would seem to fly in the face of sound risk management policies that have been developed over the years.

   The vast majority of our investment portfolio consists of U.S. Government and Agency securities. Effectively, the Federal Reserve will be in control of the regulatory capital impact of this component of our equity. As Federal Reserve monetary policy changes, so will the market value of our AFS securities. It seems disingenuous to me that the Federal Reserve would be in such a significant position to directly affect the amount of regulatory capital maintained by the banking industry.

Our bank and others could be forced to reduce the size of our balance sheets as the economy begins to improve, simply because interest rates begin to rise. This could serve to undermine an economic recovery as banks reduce lending and concentrate on pulling back to maintain capital ratios. Our small business customers and consumer customers could be impacted by the reduced availability of credit under this scenario.

2. Elimination of Trust Preferred Securities as a component of Tier 1 capital

Our holding company has $125 million in Trust Preferred Securities. This is an important and cost-effective component of our consolidated capital. We made the decision to issue these securities based on existing laws and regulations. This was a long-term decision for us, and we have used this source of capital to grow the institution and support additional loan growth in our markets.

Over 80% of the financial institutions issuing trust preferred securities are between $500 million and $10 billion in size. It appears to me that much of Basel III is addressed to banks that are much larger in size than INTRUST. Smaller issuers of trust preferred securities have less access to capital markets, and for those institutions that need to replace this source of regulatory capital, it may be quite difficult and costly. The Dodd-Frank Act recognized the unique issues smaller issuers face in raising capital, and provided for a grandfathering of smaller issuers of trust preferred securities. I believe the congressional intent with respect to trust preferred securities is a reasonable approach that recognizes the realities of the capital markets.

Further, the capital levels of holding companies are less critical than the capital levels of their subsidiary banks. Bank deposits are federally-insured, holding company borrowings are not. The majority of our trust preferred securities are floating rate. They represent an extremely effective source of capital in the current interest rate environment. If these securities could be replaced, it would be at a much higher cost. These additional costs would only serve to decrease profitability, resulting in less capital to support economic growth.

3. Increased risk weighting for residential real estate loans

While INTRUST does not have a high percentage of its lending assets invested in residential real estate loans, a number of our correspondent banks do have significant investments in residential real estate. In many markets in Kansas, it is the local community bank that has served as the source of funding for the housing sector. Many of these banks, desiring to limit their interest rate risk exposure, have underwritten loans with a 30-year amortization, and a balloon payment at the end of five years. This provided an affordable home loan to many borrowers, while lessening the long-term interest rate risk exposure of the bank. As I understand the proposed rulemaking, loans such as this would see their risk-weight increased significantly. If you look at the loss experience of loans such as this made by many of our Kansas banks, I believe you would see a very low level of losses. Increasing the risk-weighting of an asset class that has a comparatively low level of losses seems counter-intuitive.

No substantial economic recovery has taken place in this country without a rebound in the housing sector. I am concerned that the proposed rulemaking could have a dampening effect on the residential real estate lending conducted by many community banks in Kansas.

I have also found it interesting that the proposed rulemaking continues to cap the amount of the allowance for loan losses that may be considered Tier 1 capital at 1.25%. This seems to me to be a totally arbitrary number. In our bank, the allowance for loan losses represents the first source of coverage for loan losses. The capital of the bank represents a secondary source of coverage. On one hand, you have bank management and regulatory authorities trying to build the allowance to address credit issues. On the other hand, banks that are pressed for capital sources will look to shift dollars from the allowance so as to increase their common equity. This seems to represent a disconnect as it relates to the adequacy of the allowance and the desire for capital retention. It is an issue that I would encourage the Agencies to study.

In summary, while I support an appropriate increase in the amount of capital that banks and bank holding companies are required to hold, the cumulative effect of the major changes included in the proposed rules will have a severe impact on most of the community banks in this country. I respectfully ask you to consider this impact and to consider a possible exemption for most community banks from the bulk of these rules. Our nation's community banks need to be able to continue serving our communities and many components of the proposed rules will limit their ability to accomplish this goal.

Sincerely,

Jay Smith

Jay Smith
Chief Operating Officer
INTRUST Bank, N.A.