



October 12, 2012

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

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

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

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2012 OCT 17 PM 4: 29  
COMPTROLLER  
OF THE CURRENCY

Re: Basel III Capital Proposals

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

I appreciate the opportunity to express my concern regarding the proposed Basel III regulations and its impact on our community bank. Arkansas is a very rural state 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 think we provide exceptional service to our customers and attempt to meet all of their banking needs as well as being good community partners in the communities we serve.

Our bank agrees with the need 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 Arkansas and 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 restrictions that will negatively impact our bank are:

**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 WEIGHTING FOR RESIDENTIAL MORTGAGE 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 is 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.

#### 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 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 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 loans 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 4<sup>th</sup>, our entire Arkansas Congressional delegation sent a letter 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 internal guidance will have on the majority of America’s community banks.

Thank you for all your consideration.

Sincerely,

A handwritten signature in black ink that reads "Roy Reaves". The signature is written in a cursive style with a large, prominent "R" at the beginning.

Roy Reaves  
Chairman and CEO, Central Region

RR/hw

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