



**FIRST NATIONAL BANK
AND TRUST COMPANY OF ARDMORE**

Ardmore • Lone Grove • Marietta • Ringling • Sulphur • Velma

October 19, 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 (collectively the “banking agencies”).

First National Bank and Trust Company of Ardmore, Oklahoma (1NB) has served southern Oklahoma since 1889. We have thrived because we have products and services needed by our customers and provided by employees who really care about their communities. Basel III jeopardizes our ability to provide basic banking services to our communities and benefits to our employees. The complexity and volatility resulting from the common equity Tier 1 (CET1) capital requirements will result in significant changes to the way we have run our successful bank for 123 years.

First, 1NB offers our customers a home mortgage product which renews (balloons) every three years and typically has duration of fifteen years. This product allows us to provide loans to low to moderate income groups at less closing costs than a longer term fixed rate mortgage. In addition, this product allows us to serve families who otherwise would not qualify for long term financing. One final note, we work with borrowers when they have financial difficulties. Our customers' default rate is less than one per cent.

Under Basel III our risk weighting for these loans are 100% or higher. This is illogical; risk has proven to be minimal. Basel III category 1 residential mortgage exposure definition should eliminate the (2) (iii) restriction on balloon payments.

Another area of concern is the requirement to include unrealized gains and losses on all AFS securities in CET1 capital. Our bank is fortunate to have strong deposit demand. We make most of our loans locally and receive more deposits than we can safely loan. Our policy requires any additional deposits to be invested in high quality federal, state and local government bonds. In a raising interest environment these bonds will incur unrealized losses thus reducing our CET1 capital. Our modeling indicates a \$12 million unrealized loss assuming a 300 basis point rate increase. If this occurs we would hold these bonds to maturity thus avoiding any realized loss. However, our CET1 capital would be negatively impacted to such a degree that we would significantly reduce growth strategies and curtail mortgage lending especially if risk weighting remains as proposed. Unrealized gains or losses from government bonds and securities should be omitted from CET1 capital.

Our final concern is the detrimental impact Basel III will have on our employees. Our bank has a defined benefit plan that has helped employees with service as far back as 1933. This plan is 100% funded by 1NB, no employee contribution is required. The effects of Basel III could destroy this plan. Under Basel III any underfunding as determined by FASB will count against our CET1 capital. As of December 31, 2011 our AOCI adjustment was \$4,418,260. It should be noted that 1NB consistently contributes more than the minimum amount calculated by the Internal Revenue Service. In fact our 2011 contribution exceeded the minimum amount by \$1,000,000. Under Basel III 1NB will be punished for providing a quality retirement to our employees. These employees will be hurt if this requirement isn't changed. Any retirement fund that meets IRS requirements should not be subjected to Basel III's AOCI adjustment.

We support the banking agencies' concern for a strong and stable banking system. We were very dismayed when some members of our financial community were allowed to function without appropriate oversight. However, Basel III will punish banks such as 1NB. Our Total Risk-Based Capital at June 30, 2012, was 17.12%, well above peer average. Basel III's CET1 capital rules will force us to change our business model. Why punish well run banks with additional regulations? Ultimately the banking agencies will hurt the very people you want to help – working families.

Sincerely,


Curtis Davidson
President/CEO
First National Bank and Trust Company of Ardmore, Oklahoma