From: hhatcher@nbcok.com
Sent: Monday, October 22, 2012 5:05 PM
To: FDIC STARSMail
Subject: [STARS] - October 22, 2012 Martin Gruenberg, Acting Cha

Record ID: SCC2012W-007413-0

Received: 2012/10/22

Author Type: Banker

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Best Time to Contact: Morning

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City:
State:
Zip Code: -
Country:

Institution Information:
Institution Name:
Address1:

Address2:
City:
State:
Zip Code: -
Country:
Phone:
Types of Account(s):

Have you tried to resolve your complaint with your financial institution or company?
No
When:
How:
Contact Name:
Contact Title:

Have you filed a complaint or contacted another government agency? No
Agency Name:

Select one of the following that best describes your request: Other Inquiry

Please describe below the nature of your complaint or inquiry:

October 22, 2012

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

Re: Basel III Capital Proposals

Dear Chairman Gruenberg :

Thank you for your consideration of our comments on the joint proposed rules on minimum regulatory capital and the standardized approach for risk-weighted assets. We appreciate the opportunity to participate in these important discussions that affect our industry with serious outcomes.

NBC Oklahoma is a community bank with 8 locations in 5 communities in Oklahoma. We have total assets close to $500 million and we focus on offering products to our consumer, small business and agricultural customers. We offer conventional mortgage loans to be sold into the secondary market but a large portion of our loans by volume include commercial and consumer real estate loans and other consumer purpose loans, like most other community banks in the Midwest. We are a competitive institution that prides itself in being able to meet our customers' needs while still being conservative in our portfolio mix. We are not a complex organization by any means and we do not have an appetite for offering risky products or investing in any that would cause us to ever be grouped into a category with other larger institutions that need to be scrutinized in a different manner. We have always been considered "well-capitalized" in our regulatory examinations and we have always applied very conservative ALLL calculation methodologies.

We do have several concerns with both of these proposals. Despite public requests to you from our legislators from both sides of the aisle already pleading for the welfare of the smaller community banks like ours to be addressed in a fair manner, we would also like to bring out the fact that these proposals are very likely to have a negative impact on smaller institutions like ours. The recent comments in the media by regulators that the proposed increases in capital requirements will not generally affect smaller community banks like ours are in fact incorrect. We completely disagree with this viewpoint and would like to state that our calculations show that these increases will indeed have a very negative and direct impact for our bank, our shareholders, and our customers, who are the ultimate beneficiaries on whether a bank is safe and sound. We also feel that the capital levels being raised for a well performing bank simply for the sake of helping to prevent future insta nces where a regulator missed the signs of a bank on the way to failure, or recognized them too late, should not be grounds to implement complex and across the board calculations to create capital "cushions" instead of focusing on the specific issues that led to those specific failures, not penalizing banks that are performing well and are already well-capitalized.

Public reports by economists and other experts in the industry have repeatedly documented that most U.S. banks are already well-capitalized. This fact alone should validate that we should not be required to ask our shareholders to provide additional capital where there is no proven need for these funds, if only to allay fears that regulators may have "missed" something in other bank failures. This should never be a reason to penalize everyone on the "playground," but to incorporate a look back into what was missed during the reviews of those banks that were in poor shape, not the healthy ones that are well performing, who have sound assets and are in the position to continue operating in a manner that will assist the communities that they serve and to help them continue to economically recover by providing more funds for lending, not by reducing the funds available for lending which is exactly what would inevitably happen should these proposals pass in their current form.
The staggered implementation period that has been proposed is intended to lessen the impact before Prompt Corrective Action is taken does not offer any comfort, but it will only make the volume diminish over a longer period of time, which is still unacceptable.

Banks in the U.S. should not be forced to align with any model of European banking industry that has had a negative impact on the international communities in which they operate and as we know all too well, the European banking model does not appear to be a healthy one. Community banks do not function in an international environment! Any proposal should take into consideration the actual capital levels that need to be maintained by a bank based on a fair assessment of it's performance, current capital levels, types of products offered and diversification in its investment portfolio and if they demonstrate an appetite for aggressive growth or aggressive products, then this should be mitigated by reasonable management and oversight by regulatory authorities, not another knee jerk reaction to bank failures and yet another layer of over regulation.

The proposal that all unrealized gains and losses in available for sale (AFS) securities must flow to common equity tier 1 is also concerning. Depending on the current interest rate environment, these gains or losses can be volatile and this could affect capital level fluctuations and thereby give an incorrect view of the bank's actual capital level. In turn, this will likely affect profitability and also in turn, the government's ability to issue securities. The market could be affected by fewer banks investing in these products thereby increasing costs again. If rates go up 300 bps, the net effect on our investment portfolio would result in our capital ratios dropping approximately 200 bps.

Inconsistent with the intent of the Collins amendment, the proposed Basel III capital rule does not grandfather Trust Preferred Securities (TPS) for institutions with assets between $500 million and $15 billion. In 2013, the first year of phase out of TPS, it reduces our Tier 1 and Leverage ratios by 20 bps and when fully phased out it reduces the ratios by approximately 200 bps, not taking into consideration any other Basel III proposals. As a small community bank we are limited on access to capital and what capital we are able to retain or raise we would rather use for growing our communities instead of filling capital holes caused by changes in regulation.

These proposed rules are far too complex and detailed for the smaller community bank to be forced to address in conjunction with the already unprecedented burden placed on them by the massive overhaul of the banking world in recent years and the still unknown effect of the Dodd-Frank Act. It will be years before banks will be able to quantify the cost incurred by this regulation alone. So many resources are now devoted to regulatory management within the bank's functions that it has become more and more difficult to adequately focus on doing what all of our basic charters were originated to do: to simply serve the financial needs of the communities in which we live and work. These proposals are one more very deep level of regulatory burden that will continue to erode each and every small bank from being able to meet its universal mission statement of taking care of its customers and its customers' businesses. These rules simply must be addressed in a fair, logical, consistent and timely manner. The continued piling on of more and more monitoring of various portfolios such as residential mortgages, a mainstay of most community banks, will force more lenders out of the business of providing this type of product to consumers which in turn, will have negative effects on the mortgage-services related industry. We already know of lenders in other community banks in Oklahoma who have simply walked away from offering these products and the only reason is the continued regulatory burden and this is a shame. This exit from these markets will ultimately impact related businesses as well ranging from real estate appraisers, title companies, and every one else related to this type of product offering that has been the bedrock of community banks for decades. And when this type of bank asset is going to be classified as a higher risk product than before, this simply will not work in our favor.

Management already sets annual and quarterly goals to be met on various financial benchmarks, but these new requirements will add significant pressure on profitability, ROE and ROA where there is already effort to maximize profit at every turning point due to the current economy. An internal projection done for our bank on what our capital levels would be after Basel III would be fully implemented would result in an inability for us to pay dividends to our shareholders to pay their taxes since we are an S corporation. Further clarification of the implications of the S corp. structure to pay dividends needs to be addressed further since it was not addressed in the original proposals. We should continue to be focusing our much needed resources on making safe and sound loans to help our communities grow, not be treated as the too-big-to fail institutions that we are not.

The primary recommendation that we are requesting is to simply exempt banks under $10 billion in total assets from coming under the coverage of these proposals. If not this threshold, then we ask that another more realistic and much larger asset size be considered that fits the desired outcome.
Community banks should not be subject to these proposals in this form. The unintended consequences that will be caused by these proposals will surely be negative to the banks that have never had regulatory issues before and we feel that the negative impacts such as reduced lending to our communities is not what is needed at this time.

Sincerely,

H.K. Hatcher,
President/CEO

Hatcher
NBC Oklahoma

cc: James Lankford (R-Oklahoma)
Frank Lucas (R-Oklahoma)
John Sullivan (R-Oklahoma)
Dan Boren (D-Oklahoma)
Jim Inhofe (R-Oklahoma)
Martin Gruenberg, FDIC

Desired Resolution:

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common equity tier 1 is also concerning. Depending on the current interest rate environment, these
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in these products thereby increasing costs again. If rates go up 300 bps, the net effect on our investment
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Jim Inhofe (R-Oklahoma)
Martin Gruenberg, FDIC

Authorizes the FDIC to respond and investigate (if applicable) your concerns: Yes