PCB PAYNE COUNTY BANK
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October 17, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC. 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 comment on the proposed capital rules. These rules have implications throughout the banking industry, but are especially onerous for community banks like Payne County Bank in Perkins, Oklahoma. We are a small community bank located in central rural Oklahoma. Our former owner created an ESOP retirement plan back in 1994 which has acquired total ownership of our bank. We are the only Oklahoma total ESOP owned bank but now we see a threat of existence in the dream and hopes of our former owner when he set up this plan. While the overall complexity and more stringent capital standards are problematic, the following specific issues are of particular concern:

- AOCI included in Common Equity Tier 1 Capital - Community banks have been asked to hold more on balance sheet liquidity, generally in the form of high quality AFS securities. Under the proposed rules, banks that have complied with the liquidity demands will be punished by adding significant volatility to the core capital measures. For example, our AFS portfolio represents 32% of total assets, and provides substantial liquidity and flexibility in managing overall interest rate risk. In a 300 basis point rate shock, the value of the portfolio would fall by $4.0 million, which is 16.14% of current Tier 1 Capital. This is an unacceptable level of volatility and will result in the bank shifting assets from high quality and high liquidity securities to higher risk or lower liquidity instruments or classifications (such as HTM portfolios). In addition, any economic recovery accompanied by rising rates is likely to be muted by banks restricting lending and risk as their capital is negatively impacted by their AFS portfolios.

- Trust Preferred Securities Excluded from Tier 1 Capital - Smaller community banks were specifically excluded in Dodd-Frank from the phase out of Trust Preferred Securities as Tier 1 Capital. This exception makes sense given the limited access to new capital for most community banks.
- Mortgage Lending Changes - Community banks have historically depended on 1-4 family residential real estate lending as a core component of their business. In addition, community bank mortgage portfolios performed well through the financial crisis, and were generally not a source of substantial losses. Our bank currently has $24.7 million in residential real estate loans or 33.7% of our loan portfolio, and increased weightings will result in significant changes to the bank's risk based capital ratios.
- Cumbersome Measurement and Reporting - The level of detail required in order to calculate the proposed capital measures is far beyond the systems in most community banks. For example, our bank has 513 residential real estate loans, all of which have to be classified as Category 1 or 2 and stratified by LTV. None of this information is currently in our systems, and getting up to standard will require a massive project of manual entry. This is an extremely cumbersome drain on time, attention, and resources at a time when banks are already facing increased regulations and declining margins related to record low interest rates.

The events of the last several years certainly give credence to the need for improved capital standards. However, the cumbersome and onerous standards of Basel III were designed for large, complex, and international banks. Applying these same standards to community banks like Payne County Bank will have wide ranging (and largely unknown consequences). We understand the need for higher levels of core capital and are willing to comply with such standards, but believe smaller banks can get there without the Basel III standards that are generally not appropriate or applicable.

Sincerely,

Lynn Kinder

Lynn Kinder, CEO/CFO