LIBERTY BANK
OF ARKANSAS

October 17, 2012

The Honorable Ben S. Bernake, Chairman
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219
regs.comments@occ.treas.gov

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
comments@fdic.gov

RE: PROPOSED BASEL III CAPITAL RULES, FRB DOCKET NO. 1442, OCC DOCKET ID OCC-2012-008, 0009, AND 0010, FDIC RIN 3064-AD95, 3064-AD96, AND 3064-AD97

Dear Chairman Bernake, Acting Chairman Gruenberg, and Comptroller Curry:

Thank you for the opportunity to provide comments on the three joint Notices of Proposed Rulemaking issued on June 18, 2012, commonly referred to as the Basel III proposals. For the reasons enumerated below, we oppose various aspects of the proposed rules and feel that the proposals will significantly and adversely impact community banks as an industry and significantly and adversely impact the customers of community banks.

Liberty Bank of Arkansas is a community bank headquartered in Jonesboro, Arkansas with locations across northern portions of the state. As a community bank, our focus is on serving the needs of customers in our various local markets. As a result of the 2008–09 "financial crisis," we certainly appreciate the need for appropriate regulations to avoid a recurrence. However, establishment of new and substantially different capital requirements on community banks such as ours is certainly not a reasonable and appropriate mechanism to accomplish such.

In general, the breadth and scope of the proposals pose significant issues both to banks individually as well as to the banking system as a whole. I was disappointed that proposals of such magnitude would be issued in what is clearly an inadequate period of time for careful review and study by banks and others who will be significantly impacted. This issue is particularly important for community banks such as ours as we were not anticipating the Basel III rules would be applicable to community banks and we, like most community banks, lack a designated staff to thoroughly review proposals of hundreds of pages in length.

As you obviously know, community banks operate in a very different environment than large regional, national, or international banks. Regulations should accommodate these differences.

While there are numerous aspects of the proposed rules that are troubling for community banks, we pose the following as appearing most significant and most detrimental to both community banks and our customers.

PROPOSED INCREASE IN RISK WEIGHTING FOR RESIDENTIAL MORTGAGE LOANS

Community banks serve the needs of a great many local customers with residential mortgage loans. The proposed rules increase the risk asset weighting for the vast majority of the types of residential mortgage loans held on the books of community banks. An increase in the risk weighting calculation obviously causes a resultant decrease in bank capital ratios. The impact of the proposed change will result in community banks being forced to re-evaluate the dollar amount of these type loans that the bank would be willing to make and carry on its books and also re-evaluate the pricing of these types of loans (i.e. if more capital is required to support these types of loans, the result will be an increase in cost to our customers).

PROPOSED INCREASE IN RISK WEIGHTING FOR "HIGH VOLATILITY" COMMERCIAL REAL ESTATE LOANS

The focus of community banks is lending in our local markets. As such, the vast majority of local commercial real estate development is funded through loans made by community banks. The proposed rules increase the risk weighting associated with various categories of commercial real estate loans. Certainly the terminology "high volatility" would infer that all of these types of loans should be avoided. (Really, who could argue in favor of a "high volatility" loan?) However, aside from the terminology, commercial real estate loans falling within these proposed rules are very common lending in community banks and have been for many, many years. An increase in risk weighting associated with these types of loans will obviously result in decreases of banks' capital ratios. The increased cost of capital for funding these loans will necessarily result in the need for community banks to reevaluate the dollar amount of these loans that the bank wishes to make and hold and further to reevaluate the pricing of these types of loans (i.e. if more capital is required to support these types of loans, the result will be an increase in cost to our customers).

PROPOSED ELIMINATION OF TRUST PREFERRED SECURITIES AS A CAPITAL COMPONENT

Trust preferred securities have been a permitted capital source for many, many years. Banking regulations in effect at the time of issuance of these securities permitted them to be included as a capital component. Now, in midstream, the proposal would require a phase out and elimination of these as a capital component. While no one claims that all regulations are supposed to be "fair," it would certainly be inappropriate to "change the rules" in circumstances where banks have no mechanism to "undo" their past capital raising decisions. Therefore, if any change is to be made regarding trust preferred securities, presently issued and outstanding securities should be "grandfathered," thus permitting previously issued trust preferred securities to continue to be included in capital until their maturity or redemption.

PROPOSED INCREASE IN RISK WEIGHTING FOR DELINQUENT LOANS

All banks are already required to set aside reserves for loans based on various factors including delinquency status. As such, requiring a separate specific increase in risk weight for delinquent loans would duplicate the adverse capital impacts already resulting from past due loans. No bank, community banks or otherwise, wants to have past due loans. There is no need for a new and duplicative capital penalty based soley on past due loan status.

PROPOSAL TO REQUIRE THAT GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES BE INCLUDED IN REGULATORY CAPITAL

Our bank, like many community banks, has an investment securities portfolio primarily containing United States government securities and local state, municipal, and school district securities. As such, our securities portfolio has a very low credit risk. However, no portfolio is exempt from market value fluctuations resulting from interest rate movements. The proposal to require available for sale securities market value gains and losses to be included in regulatory capital will result in a significant amount of increased volatility in banks' capital resulting solely from interest rate movements, even though there's been no change in the bank's actual balance sheet. Inclusion of securities value fluctuations resulting from interest rate movements will be detrimental to capital planning for community banks.

We appreciate the opportunity to voice our concerns on these proposals. We hope that you will re-evaluate these proposals to reduce or eliminate the adverse impact on community banks and on our customers.

Sincerely,

Lloyd McCracken, Jr.
Chief Financial Officer

LMc/ebj

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