FB&T

FIRST BANK & TRUST COMPANY

October 15, 2012

Federal Deposit Insurance Corporation
Attention: Comments/Legal ESS
550 17th Street, N.W.
Washington, DC 20429

Re: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen:

I appreciate the opportunity to comment on the Basel III proposals as approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

As president of a $140 million bank located in north central Oklahoma, I'm deeply concerned about the impact of the proposed Basel III Capital Standards. We are a bank truly owned by our community. Founded in 1934, we have approximately 160 shareholders who own small pieces of our financial institution. Our mission includes maximizing shareholder value while safeguarding our depositors' funds. We accomplish this by providing a broad range of quality financial services to small businesses, farmers and consumers in the three rural communities we serve. We concentrate primarily on agricultural and real estate lending. Our Tier 1 capital as shown on the June 30, 2012 call report is 11.42%, placing us in the upper 82% of our national peer group. We certainly understand and agree with the importance of capital as an important buffer in tough times and a way to assure our investors and customers of the safety of their community financial institution.

However, the proposed Basel III standards place many unfair and unnecessary burdens on small banks such as ours. Any capital plan that provides a single rule for banks of all sizes and types is poorly drafted and will create unnecessary harm and complexity to community banks in exchange for little or no benefit to consumers and the general public. We are the lifeblood of small businesses and finance the vast majority of them, creating jobs and vitality for our communities and customers. This rule will hamper our ability to serve them most effectively.

P.O. Box 878
Perry, Oklahoma 73077
(580) 336-5562
FAX (580) 336-5568

P.O. Box 307
Billings, Oklahoma 74630
(580) 725-3222
FAX (580) 725-3225

P.O. Box 89
Covington, Oklahoma 73730
(580) 864-7421
FAX (580) 864-7424

email: service@bankfbt.com
NMLS #460994
Member FDIC

In our market area, loan demand has been diminished due to an influx of cash from oil and gas leasing activity. At the same time, deposits continue to increase because of the lease bonuses and production payments. That combination of rising deposits and decreasing loans has produced an increased concentration on our balance sheet of investment securities. Our investment portfolio of $65 million exceeds our loan portfolio of $57 million. We restrict investments to very strong bank quality assets that we intend to hold to maturity. The vast majority are fully backed agency securities with little, if any, risk of financial loss. We understand that such investments carry interest rate risk, and we very carefully manage that. Unrealized losses become realized only if we choose to liquidate these prior to their maturity. Our history over many years shows that we do hold these securities to maturity and manage our needs for liquidity in other ways. In addition, the proposal to include unrecognized gains and losses in our capital computation will impact us more severely than large banks and most community banks due to the size of our investment portfolio in relation to our total assets. Even though this bank has never lost a penny on an investment, our capital will fluctuate based upon the current interest rate environment and economic cycle, inserting unneeded volatility into our capital and the capital of many community banks. The primary purpose of capital has long been to serve as a shock absorber in bad economic times. This proposal will create additional volatility and will amplify the impact of economic and interest rate cycles unnecessarily.

The proposed rule is much too punitive to those of us who have continued to finance housing and real estate in our communities. Many of our peers in rural markets have withdrawn from offering these products already, due to the complexity and nearly constant revision of required disclosures and the relatively recent onerous escrow requirements. This has drastically reduced the availability of mortgage alternatives for consumers living in rural areas. The proposed Basel III standards require exceedingly complex and time consuming capital computations for mortgages based upon loan to value ratios and mortgage categories. Each quarter will require reassessment of our 460 existing residential mortgages to determine the appropriate category and loan to value ratio. The time required to track and report these items quarterly is burdensome and will decrease the resources that could be devoted to enhancing customer service and providing new products that actually help our communities. I sincerely believe that this rule, if implemented as presently proposed, will cause significant shrinkage in the availability of mortgage credit in rural markets.

Existing capital rules do not alter the risk weighting of loans when the loan becomes delinquent. Rather banks classify the loans and address the risk through specific or historical allocations in the Reserve for Loan Losses. The proposed rule would change this approach, requiring that non-residential loans over 90 days receive a risk-weight of 150%. This effectively could result in a troubled asset impacting capital in multiple ways. If a provision for loan losses is made to increase the reserve account for the troubled asset, it will directly reduce earnings, decreasing capital in an equal amount. This proposal would assign a risk weight of 150% to the asset that is already fully reserved, impacting capital again for an asset that has been fully covered in the reserve for loan loss calculation. This unintended consequence could encourage a bank to prematurely charge off the loan to eliminate the capital requirement, thereby accelerating foreclosure actions on commercial property.

In order to comply with the requirements outlined above, we will need to collect and report new information to accurately calculate capital requirements on each quarterly call report. Internal reporting systems will need to be redesigned, and employees will have to be trained on the new systems. In a small bank such as ours, the persons responsible for preparing this information are the same ones trying to digest the thousands of pages of Dodd-Frank and implementing regulations. It is very likely we will need to hire additional personnel to comply with all of the new paperwork requirements. These costs will not result in any greater customer service, any new product offerings or any additional community outreach initiatives.

I sincerely request that you weigh the negative impact of the proposed regulations on community banks and evaluate if there are any significant, tangible benefits to consumers, regulators or the general public. It seems clear to me that there are very few positive results; rather the proposals will increase capital volatility and amplify economic cycle impacts rather than providing the very support that capital was intended to provide.

Community bankers love helping customers and find satisfaction seeing their communities prosper and grow. Strong, stable capital is an extremely important component in our ability to continue on that mission. We support capital rules that enhance customer confidence in the industry and serve as a buffer against economic and interest rate cycles.

Sincerely,

Gwen H. Easter
President and CEO

GHE/jb

Cc: Senator James M. Inhofe
Senator Tom Coburn
Representative Frank Lucas
Mr. Wayne Abernathy, American Bankers Association
Mr. Roger Beverage, Oklahoma Bankers Association