RCB BANK
75 Years as Your Bank!

October 9, 2012

Jennifer J. Johnson Secretary
Boards 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, D.C. 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 effects of the proposed Basel III capital requirements on a community bank such as RCB BANK.

I am the President and CEO of RCB BANK, a $2 Billion bank headquartered in Claremore, Oklahoma with locations in 17 other communities comprising 30 branches. Approximately 70% of our bank customers live in communities around Tulsa and Oklahoma City, and 30% in rural market areas with populations as small as 570. We currently have 554 employees living and involved within these communities. Our bank maintains a Subchapter S election and is approximately 12% owned by the employees of the bank.

RCB BANK provides all banking services to these communities in the form of deposit, loan products, investments and trust. The bank has reported a profit for each of the 77 years we have been in existence. Our conservative operating and lending practices have also allowed the bank to weather economic downturns and prosper in otherwise difficult times.

A major concern is the provision in the Basel III proposal to include the Unrealized Gain (Loss) of the securities portfolio in Common Equity Tier 1 Capital. Our current securities portfolio totals just under $960 million or approximately half of the bank's balance sheet. These securities are invested 51% in fixed mortgage backs with an average duration of just under 3.9 years. Government agencies comprise 29% of the portfolio while 13% are in tax-free municipals and the remaining 7% in taxable municipals, fixed CMO's and corporate bonds. The average weighted life of our entire portfolio is 2.94 years. As of September 30, 2012 the Unrealized Gain in the portfolio totaled $31.7 million. Shocking the portfolio with a 300 basis point increase in rates would result in the portfolio reporting a $47.1 million Unrealized (Loss). Volatile swings in the value of the securities portfolio caused by changes in interest rates renders meaningless, any capital planning the bank could undertake. Interest rate forecasting would become the single greatest factor in our strategic planning, far overshadowing customer service, community growth, expansion, etc. This could cause banks such as ours to greatly expand "held-to-maturity securities" reducing our balance sheet flexibility and liquidity. We have estimated our Tier 1 capital ratios under the proposed Basel III calculations at 15.62%, however with a 300 point interest rate increase our capital would decrease $78.9 million and the ratio would decrease to 7.64%, falling below the proposed minimum of 8.5%. The table below provides a more dramatic illustration of the impacts described above:

		Current Environment		300 Basis Point Increase
Unrealized Gain / (Loss)		$31.7 Million		($47.1) Million
Tier I Capital Risk Based Capital		15.62%		7.64%
Minimum Required, including Capital Conservation Buffer		8.50%		8.50%

Additionally, wide fluctuations in capital would play havoc with our legal lending limit and cause funding problems for our best customers. The same shock scenario described above effectively reduces our lending limit $20,000,000. This volatility could potentially result in the bank being unable to fund loan requests, causing our best customers to look to larger institutions for their banking needs.

An additional concern is the capital requirement extended to loans originated for the secondary market and subsequently sold. This requirement could cause the bank to set aside capital totaling in excess of $30,000,000 to account for a 90 day recourse period of mortgages sold. RCB BANK table funds its mortgage loans and sells the investor approved mortgages within 30 days. Our bank has originated mortgage loans for over 20 years, during that time we have accounted for tens of thousands of individual mortgages. We have had -0- mortgages returned to us during the initial 90 day look back period resulting from misrepresentations in the credit or default by the borrower. This additional call on our capital will again reduce our lending capabilities to our best (and most profitable) customers causing them to look to alternative institutions that can fund their lending needs.

I have additional concerns as it relates to risk weighting of assets. Risk assigned to loans has traditionally been accounted for in Loan Loss Reserve. Our loan portfolio currently totals $900,862,326. Our conservative practices have always stressed early recognition of problem loans. The Loan Loss Reserve is currently 1.74% of total loans, while our loss ratio has consistently been in the lower quartile of our peer group. Our total past due on all loans including non-accruals totaled .61% on 9-30-2012. Included in our non-accrual loans are credits that are current but have underlying collateral, cash flow or other issues which cause us to be concerned about ultimate repayment. The proposal, as written, would require the bank to increase the risk weight of these assets at the time they are on non-accrual. I feel this requirement will cause our bank and many others to delay the recognition of problems to the point a principal loss is required and will inhibit our ability to work with borrowers in the non-accrual category.

The risk weighting is also skewed against the current "bogeyman" single family residential homes that do not fit into a category determined by "experts" to cause minimal risk. The additional weighting of home mortgage loans not falling into a "Qualified" category could significantly reduce the number of home mortgage loans at a time when the economy needs resurgence in consumer residential purchases.

Residential mortgage loans total 14% of our loan portfolio. Within this portfolio are hundreds of loans that at the time of origination did not meet the "Qualified" status, as proposed. Losses in this portfolio average less than .30% since 2009. The increased capital requirement against these assets increases the cost of every consumer residential loan that is funded, despite the low risk to our bank as indicated by the loss ratio. The cost of additional capital combined with massive increases in regulatory compliance could cause many banks, including ours, to reconsider providing this type of credit.

Our bank has traditionally offered 100% financing to low and moderate income families purchasing their primary residence. This particular portfolio has also experienced similar or slightly lower default rates than those not considered under our Community Reinvestment Act requirements. The adoption of Basel III standards will effectively cancel our bank's ability to profitably provide these credits to deserving families.

My final concern is the complex and cumbersome calculations required to adhere to the proposal. RCB BANK has 16,891 notes within our loan portfolio. On any given month we will book between 700-1,000 individual loans. Our current staff does not have the time to track all of the currently proposed intricacies of the risk weighting, not including additional issues that will in all likelihood be added later when other perceived risks are identified. Conservatively, I believe at least 3 additional employees will be needed to track aspects of the proposed risk weighting on an ongoing basis. This does not include individuals that may need to be added to document all aspects of a "Qualified" mortgage on our current portfolio because there is no safe harbor for loans already on our books.

Because of these factors, the bank will be forced to consider an innumerable amount of factors relating to the effects on our capital when reviewing a loan request from our customers. Meanwhile, these factors have nothing to do with the customer's ability to repay the debt. This only serves to drastically slow the credit approval and also enters an unknown into the lending process for which neither the customer nor bank can prepare.

I support an increase in capital requirements for some banks, particularly for those banks that provide a systemic risk to the economy. I believe the practice of one size fits all causes the smaller participants to be lost in the excess. Many viable and strong community banks will be lost in the excesses of Basel III. Lost with them will be their customers and communities. It is imperative that all of the issues be resolved in order to allow conservative community banks, such as RCB BANK, to survive, serve and contribute to the economic growth in the communities in which they do business.

Sincerely,

Roger L. Mosier
RCB BANK
President and CEO