STEVE DOBRATZ
Senior Vice President

October 9, 2012

Jennifer J. Johnson, Secretary
Board of governors of the Federal Reserve System
20th Street and Constitution Ave., 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 provide comment on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

My Bank, Farmers Bank & Trust NA, Main Office in Great Bend KS, is a 105 year old family owned bank with branches throughout central Kansas and in the metro Kansas City area. One of our core activities is originating and selling 1-4 family real estate loans through our Capwest mortgage loan division. Through much, much hard work and perseverance, Capwest has become very successful over the past 2 ½ years, and is currently on track to originate and sell about 1 Billion in real estate loans for the second straight year.

My concern is with the Basel III proposal having to do with including a portion of the sold real estate loans in our risk based asset total. It's my understanding that due to the early payment default and premium refund warranties, sold loans covered by those warranties would need to be included in our risk based asset total. These warranties remain in place on average about four months after a loan is sold. So if we're selling 1 Billion per year in loans, at any given time roughly 350 Million in sold loans would be covered by our warranties. At a 50% risk weight, this would add 175 Million to our risk based asset total.

1017 HARRISON · PO BOX 267 · GREAT BEND KS 67530 · (620) 792-2411 · fax (620) 793-9736 sdobratz@farmersbankna.com

At 6/30/12, Farmers Bank had 88 Million in Total Risk Based Capital and 412 Million in Total Risk Based Assets, giving us a Risk Based Capital ratio of a very strong 21%.

If we had to add 175 Million of new risk based assets to our risk based asset total, our Risk Based Capital ratio would fall to a still strong 15%. However, if our mortgage sales increased to 2 Billion, our ratio would fall to a very low 11.55%. Any commercial and consumer loan growth the Bank would achieve along with the sales volume increase would only exacerbate the problem.

In the past three years that our mortgage division has become very active, our rep and warranty losses have amounted to less than $25,000.

It seems extremely onerous that we should have to add 175 Million in risk based assets (at current volume levels) to our calculation totals and drop our risk based capital by 6% to guard against the very minimal, minimal, minimal loss potential associated with this kind of risk. Going forward, this approach will ultimately limit the potential volume we can do of 1-4 family loan sales and / or of making loans in our local markets. As demonstrated above, a mere doubling of our 1-4 family sales volume would cause our total risk based capital to dip below 12%. Again, total losses in the last three years due to rep and warranty claims amount to less than $25,000. To use what is probably a poor analogy, it doesn't seem that the punishment fits the crime!

It may be appropriate to recognize some level of risk associated with these reps and warranties. But it seems to me that the haircut on the assets associated with the reps and warranties should be far, far less than the 50% risk weight that is under consideration. Perhaps another approach would be to set up a rep and warranty reserve funded with an appropriate amount, much like we currently do with a loan repurchase reserve that we fund at the rate of 3.5 bp of each month's loan sales.

Thank you for your time and consideration.

Sincerely,

s / sd

Steve Dobratz
Chief Financial Officer

1017 HARRISON · PO BOX 267 · GREAT BEND KS 67530 · (620) 792-2411 · fax (620) 793-9736 sdobratz@farmersbankna.com