STEVE DOBRATZ
Senior Vice President

October 19, 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.

A major concern the Bank has with the Basel III proposals has to do with including the security mark to market valuation as part of the Common Tier 1 ratio.

It doesn't seem fair that you would charge our capital account with the fluctuations due to only one side of the balance sheet. Doing so ignores the efforts, if any, that a Bank makes with the remainder of its assets and on its liability side to mitigate any interest rate risks that it might take with its investment portfolio. In addition, if a Bank were to maintain a very short bond portfolio but place the bulk of its loans in such loans as long term fixed rate house loans, that Bank would not be at risk of having a capital charge even though its asset mix might have as much or even more interest rate risk than a Bank that maintains a short average life loan portfolio and a long average life bond portfolio. From an economic point of view, the rate risk may be about the same but one Bank is exposed to capital risk solely because of its asset mix and not due to the actual interest rate risk that exists on its balance sheet.

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

If you are intent on adjusting our capital ratios for the interest rate risk inherent in our balance sheet, I believe you need to use a discipline that analyzes the entire balance sheet, not just one asset class. In our ALCO meetings one of the measures we focus on is the Economic Value of Equity (EVE). Our IRR provider analyzes all parts of our balance sheet and gives us an assessment of our economic value vs. our book value.

At 6/30/12, our book value was $90,000,000. According to our IRR provider, a 3% rate shock would decrease the value of our bond portfolio by about $36,000,000. But due to our efforts at selling long dated CD's and FHLB advances to offset the interest rate risk in our bond portfolio, our Economic Value of Equity came in at $75,000,000, only a $15,000,000 decline. As you can see, the Basel approach totally ignores the Bank's efforts to control interest rate risk and results in a distorted view of the Bank's actual capital strength. Using Basel, our equity ratio would be about 9%, while using the EVE approach would result in a 12% equity ratio, a significant difference indeed!

Thank you for your time and consideration.

Sincerely,

s / sd

Steve Dobratz
Chief Financial Officer

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