ARVEST BANK

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the various Basel III proposals 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").

Arvest Bank ("Arvest") is a privately-held, $13.8 billion bank with providing a broad range of financial services to customers in over 90 communities in Arkansas, Kansas, Missouri and Oklahoma. Arvest operates a network of 250 branches in communities both large and small throughout our trade territory.

Arvest Bank is supportive of the broader goals of capital policy improvement for the industry overall; however, we are concerned that the new rules are restrictive and will serve to reduce the level of services offered by community banks.

Following are specific items of concern to Arvest Bank:

- **Requirement that unrealized gains and losses on available for sale securities flow through the regulatory capital calculation.**

  This requirement introduces a level of interest rate risk into the regulatory capital calculations. Currently, interest rates are at unprecedented low levels. Many banks have unrealized gains in their investment portfolios. As rates rise, bank's equity would be negatively impacted as unrealized gains change to unrealized losses and this change would be solely produced by a change in interest rates. As a result, the proposed rule would introduce a level of volatility into the regulatory capital calculation and could pose challenges to the management of the capital.

  The proposed rule would require banks to implement or consider alternatives for accounting for their investment portfolio in order to reduce the capital volatility resulting from the unrealized gain or loss. One such alternative could be to classify the investment portfolio as held to maturity. Doing so would reduce the liquidity available to banks and could constrain lending opportunities as the economy continues to improve and businesses resume expansion and borrowing.

  We suggest that the proposed rule be modified so that unrealized gains and losses on the available for sale securities (e.g. the portion residing in other comprehensive income and generally resulting from movements in interest rates) do not flow through capital. This would allow for unrealized gains and losses resulting from movements in interest rates to be excluded from the capital calculation.

- **Phase out of Trust Preferred Securities as Capital Instruments.**

  The proposed treatment of trust preferred securities is inconsistent with the intent of the Collins Amendment of the Dodd-Frank Act which grandfathered Trust Preferred Securities for banks between $500 million and $15 billion. The proposed rules require the phase-out of those instruments beginning in 2013 until the instruments are fully phased-out on January 1, 2022.

  The inclusion of Trust Preferred Securities is critical to bank holding companies as they manage their capital positions. Overall, a number of bank holding companies have relied on Trust Preferred Securities as a source of capital. Phasing out Trust Preferred Securities from inclusion in the capital calculation would result in a reduction of capital for these banks. A large number of community banks are privately-held and have limited ability to raise additional capital. This phase-out would have a damaging impact on the banking industry as a whole and, as a result, would negatively impact the customers served by these banks by limiting loans and other capital-reliant services provided.

  Arvest has $115 million in Trust Preferred Securities. This represents 12.6% of our adjusted Tier 1 capital and 10.1% of our adjusted risk-based capital. While not a large percentage of our overall capital base, we have relied on the Trust Preferred Securities as a

source of capital as we have grown via organic means and through acquisitions. This source of capital provides us with the ability to expand into new markets and provide commercial, consumer and mortgage loans (as well as other products and services) to customers in all of the communities we serve.

We respectfully request that the proposed rule be revised to fully recognize the intent of the Collins Amendment of the Dodd-Frank Act by grandfathering the outstanding Trust Preferred Securities for banks between $500 million and $15 billion.

- **Deduction of Mortgage Servicing Assets that Exceed 10% of Common Equity Tier 1 Capital.**

Arvest services single family mortgage loans through two of its subsidiaries. Arvest has originated in excess of $1 billion of mortgage loans in each of the last ten years. This year alone, Arvest has originated just over $2 billion of mortgage loans through just over nine months. Arvest retains the servicing on the mortgage loans it originates, which allows us to continue to work closely with our customers once the mortgage loan is closed. Additionally, Arvest purchases servicing rights from other institutions. Arvest currently services just over $36 billion of mortgage loans, resulting in a mortgage servicing asset that exceeds 10% of common equity tier 1 capital.

The proposal imposes a penalty for those banks engaging in the mortgage servicing business. The deduction of mortgage servicing assets exceeding 10% of common equity Tier 1 capital will likely reduce the capital levels of many banks below well capitalized levels unless additional capital is available.

If the proposed rule is put into effect, current estimates indicate that we would need approximately $220 million of additional capital as a result of the 10% limit. This capital would be necessary simply because we engage in the mortgage servicing business. Note that Arvest generates strong non-interest revenue from its mortgage servicing business. In 2011, Arvest generated $66.4 million in net servicing revenue (servicing revenue less MSR amortization). While a large capital infusion is one alternative, the proposed rule could require us to consider additional alternatives which could include reducing our mortgage servicing business or exiting that business altogether.

Various alternatives to the currently proposed limits are available, including:

  - Grandfathering the existing mortgage servicing assets. Treating otherwise unfairly penalizes banks with established mortgage servicing assets;

  - Changing the provisions to allow a higher percentage to be included in capital; or

  - Removing the provisions requiring a deduction from capital for mortgage servicing assets.

Please consider each of these alternatives to the current 10% limit.

- **Increased complexity of the regulatory capital calculation.**

  Currently, risk weights are assigned to groups of assets (e.g. single family mortgage loans). The proposed rule would introduce an additional level of complexity into the calculation by assigning risk weights to individual loans rather than groups of loans. Because of the additional risk weights introduced as a result of the current proposal, banks will have to fully analyze and track the risk weightings on its loan portfolio on a loan-by-loan basis. This will require ongoing evaluation and maintenance of the risk weights as circumstances regarding those loans change. Such circumstances include criteria such as delinquency status, collateral values and other risk factors.

  For Arvest, this will likely require the addition of one to two full time equivalents in our finance department to handle the additional administrative workload associated with these requirements.

  The proposed rule will also likely result in inconsistencies in risk weighting between banks (e.g. for loans with similar characteristics) due to the administrative workload and resources required to maintain the data.

  Additionally, most of the data required to properly risk weight loans is not currently maintained in most banks' accounting systems. This was recently discovered when the regulatory agencies expanded the items included in call report schedule RC-O ("Other Data for Deposit Insurance and FICO Assessments").

In conclusion, the proposal as currently written will have a material impact our bank as well as other community banks. It will significantly increase the amount of capital we will have to hold and will greatly increase the cost of doing business.

Without a significant and time-consuming analysis, the full impact has not yet been fully determined. Accounting staff will have to be trained on the new rules and a mechanism will have to be put into place to track risk weights on loans. All of this will take considerable time, effort and expense and will not likely result in information that is useful to the regulatory agencies.

We strongly encourage you to consider the impact these new rules have on the banking industry as a whole and consider revisions to proposal. Thank you for your consideration.

Sincerely,

Karla S. Payne
Executive Vice President and Chief Financial Officer