First OKLAHOMA BANK
Member F.D.I.C.

October 20, 2012

Via Email: regs.comments@federalreserve.gov
Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Via Email: regs.comments@occ.treas.gov
Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Via Email: comments@fdic.gov
Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Dears Sirs,

I'm writing this letter to express my concerns about how adoption of the new Basel III and Standardized Approach rules will impact community banks across the country.

First Oklahoma Bank is headquartered in Tulsa, OK and has total assets of approximately $200 million. We have 3 branches in Oklahoma: 2 metropolitan branches in Tulsa and 1 rural branch in Glencoe. Our Tulsa market is primarily focused on small business lending. Our Glencoe market is primarily consumer focused, as we are the only Bank in town.

Management of our Bank attended in person the FDIC – Dallas presentation of the above referenced rules. Additionally, we have attended and participated in a number forums designed to more clearly identify and discuss how these proposed rules will impact our Bank and the communities we serve. As we understand it, the rules being proposed will materially impact how we operate our Bank going forward and how we are able to serve our communities.

General comments:
The financial crisis that engulfed our nation was primarily caused by huge financial institutions. For the most part, these companies started as banks. But as they grew, their activities moved far beyond the confines of traditional banking. Because of their sheer size, complexity, importance to America's (in fact the world's) financial health, the financial bailouts were necessary. Had they failed, we would have all failed. Because of their significance to the system, it is reasonable that the international community and US regulators would come up with a set of additional rules that will better protect the system should we face a similar crisis in the future. The proposed rules contemplated in Basel III are consistent with

prudent regulation of these systemically important financial companies. Additionally, some of the new rules in the Standardized Approach make sense as well.

There is a distinct difference between community banks and complex financial institutions. Functionally, a community bank could be defined as financial institutions that are not involved in higher risk activities such as investment banking, derivatives trading, hedge funds, and other exotic activities. Community banks generate the majority of their income via their net interest margin, the difference between what they pay depositors for their money and the interest rate they receive from borrowers. The risk in this business model is primarily related to health of the community served, the types/quality of loans made, and the interest rate risk the banks take. While we community bankers would like to think this is complicated, it really isn't. By and large we look a lot like the banks you'd have seen in 1950's, albeit with more technology. The examination process we have now, for the most part, correctly identifies a specific bank's level of risk and properly monitors/requires the necessary corrective actions.

While I appreciate the intent of Basel III and the Standardized Approach, a number of the proposed rules will have negative consequences on community banks and the cities, towns, and small businesses we serve.

Basel III:
Community banks are almost all privately owned by families/investors that live in the community being served. Generally, we do not have access to capital markets. The only reliable way for us to increase capital is through the accumulation of retained earnings over time. For that reason, community banks on average carry a much higher Tier 1 leverage ratio than do national and multi-national banks. We are naturally more conservative than large financial institutions.

Depending on the asset mix, the inclusion of accumulated other comprehensive income (AOCI) in to the Tier 1 calculation could dramatically impact the capital ratios of smaller banks. Right now interest rates are at historical lows. For many community banks, these lows have generated substantial gains for most investment securities. As the economy recovers, these gains will evaporate. The decline will have a direct impact on common equity, tier 1 capital, and total capital. Large financial institutions have the ability and expertise to mitigate the risk of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes. Community banks do not have the expertise to engage in these transactions and manage their associated risks, costs, and barriers to entry.

The Capital Conservation Buffer will impact community banks when calculating total risked based capital. As stated earlier, community banks generally increase capital through accumulation of retained earnings over time. Because we have limited access to capital markets, we also on average have carried much more conservative capital ratios than the large financial institutions. I believe the capital conservation buffer concept makes sense for bank's who routinely operate under current well capitalized ratios. For most community banks, the Capital Conservation Buffer is unnecessary and attempts to solve a problem that does not exist. If community banks are not excluded from this requirement, we will need additional time – at least 5 years beyond 2019 – to comply.

Our bank is an active SBA lender. We originate SBA loans and sale the guaranteed portion of the loans into the secondary market. By SBA regulation, we are required to maintain 1% servicing on the sold portion loans. Because of our volume of sold loans, both our auditors and regulators have required us to create an intangible SBA servicing asset. Under the current rules, we are allowed to count this asset in regulatory capital. Under the new rules, we would be penalized for serving the small businesses in our community. Community banks should be allowed to continue to follow current deduction methodologies.

Our bank is an active mortgage lender. First Oklahoma Mortgage, LLC is a wholly owned subsidiary of First Oklahoma Bank. We started our mortgage company in 2011 in order to fill the void left when the national mortgage companies either collapsed or left the communities we serve. In 2012, we will originate and sell approx. $100 million in mortgage loans. One of the goals of the mortgage company was to retain the mortgage servicing. Many community banks have been involved in mortgage servicing. It is a reliable way to retain existing relationships and make mortgage lending simple and efficient in our communities. Community banks service only a fraction of the total mortgage loans in the nation; and those we do service, are generally in our home communities. The proposed rules would penalize mortgage servicing assets. Community banks should be allowed to continue to follow current deduction methodologies.

Standardized Approach:
Specific proposed changes in risk weighting of 1-4 family loans will dramatically impact our ability to service our community. Glencoe is a town of roughly 500 people. We are the only Bank operating in the town of Glencoe. Home prices in Glencoe are generally under $50,000. Because of the cost associated with closing a loan sold on the secondary market, we routinely make and service home mortgage loans for our Glencoe customers. We do not have 30- year fixed rate money to offer these customers. In order to manage our interest rate risk, we balloon these loans. These ballooned loans risk weight will change from 50% to as high as 100% under the new rules. In some cases, we have exceeded a 90% loan-to-value when we've had PMI insurance coverage. Under the new rules, the fact the Bank obtained PMI coverage to limit our exposure doesn't count. The risk weight of these loans moves from 50% to 200%. It doesn't seem reasonable that we should be penalized for serving our community and using mainstream products (PMI) to reduce our risks. The impact of these risk weight changes will be a reduction of credit in our community.

In small communities, when a borrower is working out of a problem, it is important that the Bank have the ability to be flexible so that other local businesses are not negatively impacted. When a loan is over 90-days past due or on non-accrual, under FASB rules, we are required to make a specific allocation for the Bank's exposure on the problem credit. While the loan still carries a 100% risk weight, we've already run the anticipated loss through our income statement. In the proposed rule, the problem credit's risk weight increases from 100% to 150%. Since the loss is already provisioned in the reserve, the risk of loss is covered. The impact then of the increased risk weight limits the Bank's flexibility to work with the customer to resolve the situation in a reasonable period of time.

Closing:
I'm very concerned about the future of community banking. In the last 25 years the total number of banks operating in the United States has declined by 57%. The vast majority of the decline has come from the reduction/loss of community banks. Our nation's banking assets are increasingly being held by a small number of large financial institutions. The economic turmoil of the last 5 years has only accelerated this trend. These institutions are not focused on small businesses, local economies, or rural communities. They are driven by transactional volume and operational efficiency. We have experienced what consolidation of community banks in Tulsa means. Decision making was exported to Dallas (Chase), responsiveness to community needs is evaluated in Charlotte, NC (Bank of America), and we now send mortgage payments to California (Wells Fargo). In the short run, the losers in the

redistribution of banking assets are community banks. In the long run, the losers are the communities and small businesses which we serve.

In addition to local consumers, community banks are the principal source of credit for small businesses. The Chamber of Commerce in Tulsa (one of the 50 largest cities in the country) estimates that 98% of the businesses in Tulsa are classified as small. 80% of those working in Tulsa work for a small business. Without community banks, where would these business have gone/go for the credit necessary to grow? Without growing local businesses, where would our people find work?

Basel III correctly aimed to de-risk systemically critical financial institutions. Community banks are far less complicated and much less risk oriented than financial institutions. For the most part, Basel III is trying to solve problems that don't exist in community banks.

I appreciate your consideration of the above comments. Please contact me directly if I can be helpful.

Respectfully,

Thomas Bennett III

Thomas E. Bennett, III
President
First Oklahoma Bank