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Member FDIC

October 22, 2012

Jennifer J. Johnson, Secretary
Board 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, DC 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 issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. On behalf of Farmers Exchange Bank in Cherokee, Oklahoma, I would like to share a few thoughts on the impact of the proposal upon my bank.

Capital is a very simple concept that requires neither a Philadelphia lawyer to define, nor an Ivy League accountant to calculate. To begin a process of complicating paid-in or earned equity with modeled and anticipated impacts of market events will most certainly create unexpected and unintended consequences for community banks. I understand the need for sufficient capital to secure the continuity and viability of my bank when times get tough and unseen turns of events occur, but to attempt to define and calculate those events will only cause opportunities for error and abuse. The job of any bank's management team is to recognize and work through those events as they occur just as we did in the 80's, not measure them when they don't. Proactive awareness and readiness does not equate to, nor can it be replaced by, anticipatory modeling and

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

measurement. If capital requirements need to be higher, then make them higher, but there is no need to redefine them. But please bear in mind the constraint and limitation of resources that occur for lending or investment in the community when capital requirements are increased. And furthermore, where will those funds come from if the community bank ceases to exist?

My biggest concern is making accumulated other comprehensive income part of regulatory capital. My bank has a large securities portfolio in proportion to its balance sheet. Today, its market value provides a nice cushion to my projected capital under the proposed rules. When interest rates rise (and ultimately they will) that cushion will not just go away, it will potentially create a capital vacuum. But in reality, it only affects my capital to the extent of raising liquidity, i.e. I don't realize any gain or loss unless I sell something. So AOCI is really a measure of and dependent upon liquidity – it is not a capital component. As a community bank manager, it is imperative that I have the flexibility to address liquidity needs without primary consideration to capital impact. Furthermore those liquidity adjustments in reality should never be more than a small percentage of the securities portfolio and therefore only a small portion of any projected gain or loss. I would implore you not to create a required capital slant on liquidity management. Parenthetical awareness of the AOCI has been and is still sufficient.

My second greatest concern is the risk weighting of mortgage assets as we attempt to make home and business real estate products available to our customers. In our market today, many lenders have dropped out of the residential mortgage arena. The regulatory burden that already exists for these loans before any impact of this capital proposal has already pushed lenders out of the market. We're still trying to make mortgage loans, and we've expanded to selling and servicing mortgage loans in the secondary market. This proposal has implications for both originating and servicing those loans that will certainly cause us to revisit whether we will be able to continue offering those products and services to our customers. More stringent capital requirements coupled with already over-burdensome, duplicative, and unnecessary documentation and disclosures will most certainly further limit this already much diminished area of lending.

My bank and its stockholders will also be negatively impacted by the proposed capital conservation buffers. As a Subchapter S organization, it is imperative that the bank be able to pass along dividends at least large enough to pay its share of the stockholders' income tax liability. Today, as the bank is making reasonable profits, a dividend of approximately 41% of net earnings is required to meet the income tax liability. That leaves 59% that can be retained to cover normal, usual growth, which means the stockholder is realizing nothing current from his investment in the bank if the 59% is indeed retained. Withholding dividends sufficient to pay the bank's share of income taxes will most certainly curtail the ability to attract and retain potential investors in a community bank which will result in even more community bank charters being placed on the market.

I know there are other issues involved in Basel III that could further impact my bank, but insofar as I can ascertain today, they will be much less significant. But in summary, I can tell you that my preference would be the same as that of Mr. Hoenig – scrap this proposal! Let's get back to the drawing board with some common sense and come up with something meaningful and realistic, at least as it pertains to community banks. The regulatory agencies, of all people, should understand the difference between Wall Street and Main Street, a comparison we wouldn't be making but for the mistake of repealing Glass-Steagall. Let's not follow that mistake with another by enacting this proposal and driving community banking to extinction!

Thank you for your time and consideration.

Loren Rieger
President/CEO