



Jennifer J. Johnson, Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.,
Washington, D.C. 20551
Docket No. R-1430; RIN No. 7100-AD87
Docket No. R-1442; RIN No. 7100-AD87

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219
Docket ID OCC-2012-0008
Docket ID OCC-2012-0009

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
FDIC RIN 3064-AD95
FDIC RIN 3064-AD96

RE: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action; and Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements*

Dear Sir or Madam:

ACB Bank is a small community bank located in rural Northwest Oklahoma. We employ 19 people and have about \$70,000,000 in assets. ACB Bank submits these comments in response to the requests for comments in the notices of proposed rulemaking (NPR) on minimum regulatory capital and the standardized approach for risk-weighted assets titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action; and Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements*.

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Community banks should be exempt

The Basel III proposals were intended for large, sophisticated financial institutions competing with others of a similar scale across the globe. These new capital proposals are an unnecessary and costly regulatory burden that will result in damaging unintended consequences, including, but not limited to further consolidation of the industry.

Community bankers recognize the importance of appropriate levels of capital as a key component of a safe and sound bank and banking system. Required maintenance of adequate levels of capital is good for all banks and the country as a whole and community banks are already leaders in maintaining high quality capital. Our concern is the burdensome process and consequences of instituting complex new rules on community banks.

For the very reason that the agencies have proposed these rules –the safety and soundness of the industry –community banks should be exempt from these proposals and allowed to continue to measure capital according to present methodology.

Problems with the proposals

Compliance with the spate of current and upcoming regulations is and will be taxing community banks for years to come. The ever-increasing level of regulatory burden has community bank resources stretched to the limits. These burdens cause us to wonder how big a bank must be to absorb the increasing cost of compliance to survive. These additional new and costly burdens should be a call to the regulatory community that they should be assisting the community banking community in dealing with the regulatory burden rather than piling on additional burdens.

Even in large metropolitan areas, finding employees who are able to understand the complexity of banking regulations is a challenge. In our area, it is impossible. The only way for a small bank to keep up with the increased regulatory burden is to hire additional staff. This increases our costs, which in turn, increases costs that are eventually passed on to consumers.

Yes, we serve the communities in which we live. But we are not a non-profit organization. Our bank owners spent years growing their market and developing their business. Many times they have put additional capital into the bank just to survive hard economic times. Eventually, these investors will want to see a return on their investment. By further diminishing returns, it is going to be nearly impossible to get more businessmen to invest in a bank. This directly hurts small communities that are the backbone of our nation's small businesses.

Accumulated Other Comprehensive Income (AOCI). The historically low interest rate environment has created issues for a number of our banks. Banks will eventually face

potentially significant unrealized losses in their securities portfolios. This could easily create scenarios in which a formerly well-capitalized bank could face severe sanctions due solely to market rate movements. Further, the “mark to market” requirement will require banks to hold more capital to compensate for inevitable swings in interest rates, thus hindering growth and lending opportunities. Community banks can’t effectively hedge interest rate risk in their portfolios.

Community banks invest in issuances of their local governmental entities. The cost of borrowing for these public entities will likely increase as banks will be reluctant to hold longer maturity securities for fear of rate-driven capital degradation. This could result in significant negative impact on infrastructure development at the state and local level as well as harm to projects that create jobs locally.

In our county, public entities don’t have the luxury of shopping among large banks. Small community banks are all that can be found within a 45 mile radius. Counties in Oklahoma have already been discussing consolidation. And another increased cost to the counties would further drive this consolidation. This would cost more jobs. And in a state where 1 in 5 people are government employees, this will have a significant impact on our local economy.

Risk Weighting will be challenging, expensive, and a disincentive to mortgage lending:

Assigning proper risk-weightings to various assets will be an expensive and time-consuming undertaking, which will require additional staff and expensive software. This will serve as a disincentive to mortgage and real estate lending at community banks, especially loans kept “in-portfolio” as is common in the community banking model. Particularly harmful to community banks is the punitive impact of changes to balloon mortgage loans and all second liens including home equity lines. These loans provide solid financing alternatives to home loan borrowers in underserved and rural communities and play a large role in shaping the local economies of the communities in which the loans are originated. Additionally, community bank lending, which focuses on tailoring loan products to the specific needs of the customer, is a powerful force in small business formation and growth that fuels job creation. As relationship-based lenders, community banks possess the local expertise needed to complete quality underwriting for these loan products and provide forms of financing that larger banks will not offer. Further, the introduction of “High Volatility Commercial Real Estate” (HVCRE), with a 150% risk weighting and limited exemptions, will in our assessment also limit a bank’s willingness to make these loans and raise borrowing costs in this already challenged market. Further depressing residential and commercial real estate lending will result in additional harm to an already shaky rural real estate lending market.

Where does the Allowance for Loan and Lease Losses fit into the mix? Specific allocations of capital are made for higher risk, classified, past due and non-accrual loans. However, the proposal does not allow for adequate inclusion of the allowance in the determination of regulatory capital. We must remember that the allowance represents the first line of defense against harmful credit loss and it properly represents an allocation of capital to meet that objective. Yet the proposal continues to cap the allowance while ignoring its importance by not

elevating at least some component as higher tier capital. It appears that with the additional capital requirements, perhaps there will be adjustments in the way this important risk management tool is utilized by banks and evaluated by the regulators.

From a macro perspective, this particular point in the economic cycle would appear to be perhaps the worst time possible for regulatory policies that result in disincentives for banks to fund properly underwritten real estate loans. Many of these changes will limit choices and raise costs for the consumer. Further, the resultant increased market share and concentration of residential real estate mortgage loans in the largest institutions is simply not healthy for our economy.

Capital treatment of deferred tax assets, goodwill, and pension accounts. There are new complex restrictions and limitations on capital treatment of deferred tax assets, goodwill and pension accounts. Further, a proposed financial accounting standard requirement to capitalize certain operating leases would increase risk weighted assets, and thus the level of required capital. There have been concerns raised that these proposals “change the rules”, and could prove problematic.

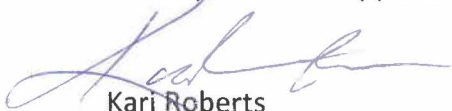
Conclusion

The bottom line is that our bank will not be able to make home loans to those in our community. For those consumers who are otherwise qualified, it will be next to impossible for them to get a home loan on a \$30,000 home. Mortgage companies and large banks will not mess with such a small dollar amount. By causing us to have more capital invested besides the extra regulatory burden that has already taken place, law makers have insured that we will not be able to comply enough to risk making small home loans.

The community banking industry is overwhelmed by government regulation, and this proposal unnecessarily piles on additional regulatory burdens. Ultimately, these burdens will lead to higher borrowing costs and diminished availability of both credit and bank services to consumers, small businesses, and local governments. Though this proposal is counterintuitive regardless of the state of the national economy, the current tenuous state of the national economy makes it especially counterintuitive.

Community banks should be allowed to continue using the current Basel I risk weightings as they have and will continue to serve banks, customers, and regulators very well.

Thank you for the opportunity to comment on these proposals.



Kari Roberts
President
ACB Bank