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kirkpatrickbank.com • 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, DC 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, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to comment on the proposed capital rules. These rules have implications throughout the banking industry, but are especially difficult for community banks like Kirkpatrick Bank, Edmond, Oklahoma. While the overall complexity and more stringent capital standards are challenging, the following specific issues are particularly concerning:

- **AOCI included in Common Equity Tier 1 Capital** - Community banks have been asked to hold more on balance sheet liquidity, generally in the form of high quality AFS securities. Under the proposed rules, banks that have complied with the liquidity demands will be punished by adding significant volatility to the core capital measures. In addition, any economic recovery accompanied by rising rates is likely to be stifled by banks restricting lending and risk as their capital is negatively impacted by their AFS portfolios.
- **Trust Preferred Securities Excluded from Tier 1 Capital** - Smaller community banks were specifically excluded in Dodd-Frank from the phase out of Trust Preferred Securities as Tier 1 Capital. This exception makes sense given the limited access to new capital for most community banks.
- **Mortgage Lending Changes** - Community banks have historically depended on 1-4 family residential real estate lending as a core component of their business. In addition, community bank mortgage portfolios performed well through the financial crisis, and were generally not a source of substantial losses.

Main Bank

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Danforth Office

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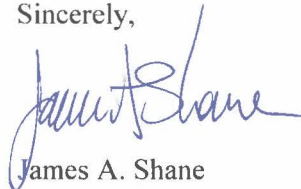
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- **Cumbersome Measurement and Reporting** - The level of detail required in order to calculate the proposed capital measures is far beyond the systems in most community banks. For example, banks will need to classify their mortgage loans as Category 1 or 2 and stratified by LTV. None of this information is readily available in many bank core systems, and getting up to standard will require a massive project of manual entry. This is an extremely cumbersome drain on time, attention, and resources at a time when banks are already facing increased regulations and declining margins related to record low interest rates.

The events of the last several years certainly give weight to the need for improved capital standards. However, the cumbersome and onerous standards of Basel III were designed for large, complex, national and international banks. Applying these same standards to community banks like Kirkpatrick Bank will have wide ranging and largely unknown consequences. We understand the need for higher levels of core capital and are willing to comply with such standards, but believe smaller banks can get there without the Basel III standards that are generally not appropriate or applicable.

Sincerely,

A handwritten signature in blue ink that reads "James A. Shane". The signature is written in a cursive style with a large, stylized initial "J".

James A. Shane

Vice President and Chief Financial Officer