September 9, 2012

To: FDIC

From: James Stoner, President, Welch State Bank Welch, Oklahoma

Reference: RIN 3064-AD95 (Basel III NPR) and RIN 3064-AD96 (Standardized Approach NPR)

Hello,

My name is James Stoner and I'm the President of a community bank in Welch, Oklahoma. We are 203 million in size with three locations and organized as a sub chapter S. The first comment I would like to make is in reference to what you will be calling "common equity tier 1 risk-based capital." This ratio concerns me a great deal and I believe will lead to dramatic consequences for all community banks. All banks put their bonds in the available for sale category even though we rarely sell a bond before it's called or matures. If you have a bond portfolio that is in the top quartile in performance, then statistics show you have at least one third of your portfolio in municipal bonds that are long term. If you are a sub chapter S bank that is growing, you may have more than one third of your portfolio in municipals.

I would like to demonstrate to you how this "common equity tier 1 risk-based capital ratio" will effect our bank if put into effect. We have a bond portfolio of 57 million and our portfolio analysis shows the market value that will be lost as rates rise. We will lose 2.5 percent in market value with rates up 100 basis points, 5.5 percent with rates up 200 basis points, and 8.8 percent with rates up 300 basis points. Put in dollars that means if rates go up 300 basis points in the future I will lose $5,016,000.00 in capital value and have it counted against me all because of mark to market and the common equity capital ratio.

I ran a scenario using these figures and the equity tier 1 dropped five hundred and fifty basis points! If this ratio is allowed to be used, you will see many banks exit the longer term municipal bond market which will have a negative impact on the market itself and a tremendously negative impact on the earnings of the banks bond portfolio.

I would now like to address the Standardized Approach NPR in reference to risk weighting of 1-4 Family Residential Real Estate Loans. We analyzed our 1-4 Family Real Estate Loans and found that only ten percent of them qualified to be category 1 loans because of the criteria standards. I then ran a scenario using this data to see how it affected the three capital ratios. Total Risk –Based Ratio went from 21.12 percent to 14.32 percent. Tier 1 Risk-Based Ratio went from 19.87 to 13.07 percent. Common Equity Tier 1 Risk-Based Ratio went from 21.14 percent to 10.46 percent. These results were affected by three things: the mark to market on the bond portfolio, the changing of risk weighting on Private Labeled Mortgages, and the proposed risk weighted changes for 1-4 Family Mortgages. It's very easy to see that Equity Tier 1 is the most penalizing because of the combination of mark to market losses and the dramatic changes in risk weighting for assets.

I believe this proposal has a disproportional view of a community banks 1-4 Family loans that have balloons, deferrals, and interest rate caps that don't match with the new standards. I feel that the agencies are putting our loans in the same category as the secondary market loans with the same features. However, the performance of our loans is dramatically better then the performance of the secondary market loans. This is because we required down payments and didn't loan 110 percent of the appraised value. We inspected the houses ourselves and made sure the appraisals weren't out of line with the market. We didn't allow our customers to take on debt they couldn't pay back. We have a proven track record in the 1-4 Family Mortgage business that spans decades. Why do you want to penalize us so much?

I would like to address the proposed changes to evaluating and establishing risk weights for private label mortgage-backed securities. It now appears that Fannie Mae and Freddie Mac will eventually go away. This means that the mortgage bond market will be down to government and the big banks issuing the bonds and the community banks totally out of the mortgage backed bond market because of the complexity of choices available to evaluate the bonds and establish a risk weighting for them. Furthermore, with the threat of a risk weighting of 1250 percent, who wants to take the chance. I believe this is what you want but I believe it will have consequences well beyond what you are thinking of right now.

I noticed in the NPR a statement that said "The agencies believe that the LTV information should be readily available from the mortgage loan documents and thus should not present an issue for banking organizations in calculating the risk-based capital under the proposed requirements." This couldn't be farther than the truth! Yes, we have the information but getting it together and getting the first and second mortgages combined so the LTV can be determined will have to be done by hand. Yes, I said by hand. Unless we are able to have some major reprogramming and recoding of all our 1-4 Family real estate loans this will continue to have to be done by hand and cause a major drain on our staff.

My last comment is how this proposal will have a damaging impact on the value of the community bank franchise. Part of our strategic plan was to raise our capital level to 12 percent so we could acquire another bank. This proposal has done away with that plan because of the uncertainty it brings to our business. We have to compete for capital just like any other industry in the market and this will hamstring us. This will also have a major effect on the resale of any bank the FDIC tries to sell out of receivership.

Thank you for taking the time to read my comments.

Sincerely,

James A. Stoner