Bank of Cushing
224 East Broadway
P O Box 951
Cushing, Oklahoma 74023

Member FDIC

October 19, 2012

Via e-mail:
regs.comments@federalreserve.gov
Jennifer J. Johnson, Secretary
Board of Governors, Federal
Reserve System
20th Street & Constitution Ave NW
Washington, D. C. 20551
Basel III Federal Reserve docket No. 1442

Via e-mail:
comments@FDIC.gov
Robert E. Feldman, Exec Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corp
550 17th Street, NW
Washington, DC 20429
Basel III FDIC RIN 3064-AD95
FDIC Docket No. RIN 3064-AD96

Dear Sir and/or Madame:

On behalf of the Bank of Cushing, Cushing, OK the following comments are submitted regarding the proposals noted above, aka "Basle III." Please note that the reference to "Community Banks" in this letter is not the regulatory definition of $10 billion and under but is closer to $250 million and below and includes banks in smaller more rural towns and cities.

Bank of Cushing (BOC) is a community bank (approximately $100 million) located in the central part of Oklahoma in a community of less than 8,000. BOC has been serving our geographic market for 115 years. Like most communities, Cushing certainly has seen our share of good and not so good and even bad economic times and challenges. Two members of the management team are third generation owners and active officers of the bank.

BOC has survived the worst of times as we are in business to serve our market and work with the community at large in meeting their financial needs. We have worked very hard to be creative in working with our customers in "work out" situations. Some customers have paid us long periods of time to finally reach the goal of full payment to BOC. Many of these situations have not met the requirements of the "boxes" that are currently being proposed to guide the banks on loan decisions.

By reviewing the financial results of BOC over the many years, it becomes quite evident that the Bank of Cushing Board of Directors and Sr. Management fully support the need for quality and sufficient capital. We believe in that tenet not only for the individual institution, but also for the banking industry as a whole. We also believe that the Basel III proposals will have a significantly negative impact on our ability as a community bank to serve our customers and our communities, which applies to community banks in smaller communities across the nation as well.

The most significant question is: "Why are these proposals being pushed down to financial institutions under $10 billion?" The larger financial institutions and more particularly the Wall Street Brokerage Houses (which are not banks) were the most significant cause of the financial meltdown we have suffered to survive. Smaller banks in general were not in the mortgage practice of churning mortgages to support weak securities sales. Again rules should affect the guilty institutions and not penalize banks that were not engaged in those practices.

CUSHING - 918-225-2010; DRUMRIGHT - 918-352-2010; FAX - 918-225-3724

I. A. REGULATORY CAPITAL RULES, Minimum Regulatory Capital, etc.

Since the U. S. is in a frail recovery period, there should be no rules implemented that will reduce the lending capacity of community banks and further exacerbate economic conditions. **This proposal should be withdrawn and not reissued.** If it is reissued, it should apply only to financial institutions $50 billion or more.

I. B. REGULATORY CAPITAL RULES, Standardized Approach Risk-Weighted Assets, etc.

The proposed one-size-fits-all approach is a bad fit for community banks. **This proposal should be withdrawn and not reissued.** If it is reissued, it should apply only to financial institutions $50 billion or more.

I. C. REGULATORY CAPITAL RULES, Advanced Approaches and Market Risk:

BOC is in support of the ABA comments regarding this proposal.

I. D. REGULATORY CAPITAL RULES, Applicability to Credit Unions:

In the opinion of BOC, there is no rational reason that the Basel III requirements should not be applicable to Credit Unions. As they have become more and more "bank like", they should be required to follow the same rules. The Credit Unions maintain their advantages over the banking industry at the same time they encroach on our best customers with very aggressive marketing. Additionally, their operations have significantly moved from their original chartered purpose - why should they have favored tax and regulatory exemptions?

II. Bank of Cushing - Total Assets $105 million; Equity Capital - 11.3% (Call Report formula 12.5%) and Total Capital 12.0% (Call Report formula 13.2%); Tier I Capital to Risk Weighted Assets 17.1% and Tier II Capital to Risk Weighted Assets 18.3%.

As in line with the position presented in the letter from the Oklahoma Bankers Association, BOC is right in line with the median size bank in OK. We do have limited compliance staff and generally there are several employees that have some of the compliance responsibilities assigned. The ever increasing demands of just meeting the minimum requirements of the existing, ever changing and new mandates from so many regulations has pushed several of our neighboring banks to sell their banks and just get out of the business.

The increased mortgage loan regulations have already pushed BOC out of the mortgage lending arena. That type of loan should be one of the most important credit lines offered to our community. The Basel III risk weighting applied to mortgage lending is another total over kill. What is a more basic need than one's home? We have had many mortgage loan customers that have never missed a payment or are quite consistent about paying their mortgage, where on paper or cash flow analysis, or whatever documented review of the credit worthiness of their ability to re-pay does not meet the current rigid, stringent and overwhelming requirements to support the mortgage granting decision.

III. A. RISK-BASED AND LEVERAGE CAPITAL RULES - Observation

It is not necessary to further punish Community Banks with increased capital requirements when community banks were essentially a non-player in the financial crisis a few years ago.

Banks like BOC will be negatively impacted in the areas of home lending, community development and small business lending. The lack of the preceding will impact the future viability of our community - Cushing OK and geographic surrounding area.

III. B. RISK-BASED AND LEVERAGE CAPITAL RULES - AOCI into Capital Formula

This proposal should strike the language that mandates inclusion of Accumulated Other Comprehensive Income (AOCI) in the capital account of community banks. Leaving this requirement in place will create unnecessary and increased volatility in regulatory capital balances. It is certain that rates will at some point begin to rise and when they do rise, the current unrealized gains in the Investment Securities Portfolios will most certainly turn to unrealized losses. These losses being accounted for as a part of the Regulatory Capital would have major negative impact on the level of capital and the volatility of that capital as well. Any reduction in capital will further reduce the ability of community banks to provide adequate loans in their markets, which would dampen economic recovery.

The decline in capital will stretch to impact the local area and state municipal bond issue funding needs. Many banks purchase non-rated, bank-qualified local municipal bonds and somewhat longer-term 10 to 15-year bonds. If this proposed requirement is adopted, the entire structure of municipal bond issuance would be negatively impacted. The impact has the potential to dry up the financial ability of local governments to adequately perform their functions.

III. C. RISK-BASED AND LEVERAGE CAPITAL RULES - Trust Preferred Securities -

It is the opinion of BOC that existing Trust Preferred Securities should be permanently grandfathered for institutions under $15 billion in total assets, in compliance with the Collins Amendment to Dodd Frank.

III. D. RISK-BASED AND LEVERAGE CAPITAL RULES - Capital Conservation Buffer -

It is the opinion of BOC that the Reserve for Loan Losses already serves as a "buffer" against potential loan losses. Federal banking regulators have sufficient rules and regulations to enable them to deal with the circumstances under which payment of dividends and executive compensation is appropriate and permitted.

The new "buffer" is not needed and is more than certainly redundant and should be stricken from the proposal

IV. A. THE STANDARDIZED APPROACH - General Observations

BOC strongly believes that this proposal should not be applied to community banks. If these proposals are adopted, community banks will be pushed to make such conservative loans that the communities in which we operate will be under served. Being forced into that position for existing community banks will only open the doors for more non-regulated or less-regulated credit grantors to become more aggressive in markets of smaller institutions.

Applying such stringent Risk-Weighting factors to various mortgages loans will not only apply more pressures on banks to **NOT** make such loans, but will certainly unnecessarily complicate the calculations themselves. Typically for BOC the first mortgage residential loans are some of the less risky loans in our portfolio. In the long run with smaller banks certainly getting out of making home loans, the housing and related industries will also be negatively harmed.

IV. B. THE STANDARDIZED APPROACH - 1. Balloon Notes

BOC has been using Balloon Notes for years primarily to enable us to review the rate structure in light of the current economic conditions, review the circumstances surrounding the financial position of the borrower. That structure allows the local banks to retain the customer, the credit granting within the local area and has been an excellent risk-management tool.

IV. B. THE STANDARDIZED APPROACH - 2. Risk-Weighting for Past-Due Loans:

BOC believes that no additional risk-weighting for past-due loans is warranted and or necessary. The Adequacy Formulas on the Reserve for Loan Losses take into account watch list, past due, non-accrual, loans designated with some loss potential, bankrupt customers with work out loans and other economic factors. The Regulators review these formulas and calculations thoroughly at every examination. If it is felt that the Reserve itself is inadequate, there will be strong incentives from the regulators for banks to maintain an adequate Reserve for Loan Losses.

IV. B. THE STANDARDIZED APPROACH - 3. Risk-Weighting for Existing Mortgage Loans:

BOC believes that no additional risk-weighting for existing mortgage loans is warranted and or necessary. The proposals are so stringent and increase risk weights up to 200%. Again, real "community banks" did **NOT** create the type of risky mortgage loans the exacerbated the mortgage loan debacle of a few years ago. The added risk-weighting punishes community banks for sins of others.

The details of the proposals are exceedingly complex with the requested information either non-existent or very costly to obtain in our market. There are so many complex issues that are raised that the regulators do not have clear or concise responses for. These requirements will only drive more community banks totally out of the mortgage loan business.

Community banks across the nation are the life blood of their local communities and geographic areas and these proposals are quite counter to their long-term viability. Your attention to the backing off of making the provisions of Basel III as proposed applicable to community banks will be greatly appreciated by those of us in the community banking business.

Respectively

Betty B Shaull

Betty Bryant Shaull
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