ARVEST BANK
Member FDIC

July 6, 2005

Subject: Docket Number OP-1227
Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Subject: Docket Number OP-1227
Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Feldman and Ms. Johnson:

Arvest Bank is an Arkansas state-chartered bank and a member of the Federal Reserve Bank of St. Louis. We operate from about 200 banking locations in Arkansas, Missouri and Oklahoma and have total consolidated assets of approximately $7 billion.

We recognize the need of the federal banking regulators to periodically update their internal examination methodologies, such as that considered in this proposal. However, we do not believe that a methodology that is appropriate for examination purposes is necessarily most appropriate for lending institutions. Each institution should continue to be allowed to develop its methodology which management and the board of directors believes is more appropriate for its operating philosophy, style and portfolio while still adhering to generally accepted accounting principles.

Our reading of the proposal does not reveal the statistical rationale and support for the loss severity estimate percentages as used in the Facilities Rating. Therefore, we are unable to comment on the appropriateness of those percentages.

We do not understand how the resulting data from applying the definitions would affect the ALLL. For example, loans would be classified as Pass, Marginal, Weak, Default/Remote, Default/Low, Default/Moderate and Default/High. We assume the bank would then apply it's own factors to each category to compute the ALLL. While we certainly oppose a regulatory mandate as to the exact percentages to be applied in computing the ALLL, we are puzzled as to the ultimate use of this proposal without such mandated percentages.

We generally have no objections to mapping our classified loans to the federal categories. However, we do not support any mandating of categories for our internal risk rating purposes or for computation of ALLL.



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The proposal requested responses to seven specific questions. Our responses to these questions follow:

Question 1: America sent men to the moon and back successfully and classifying loans is not as difficult. However, there are costs involved in implementing new systems, including the loss of well-understood benchmarks for management purposes.

Question 2: Without a clear set of significant benefits to the bank, the costs of converting to a new categorization process is wasteful. We believe it would take at least a full year to implement changes to adopt the proposed regimen. We do not believe there are any benefits to us in adopting the proposed classification scheme.

Question 3: The primary costs are for system design; policy rewriting; data conversions; data validation; training of lenders, loan support, accounting, senior management, loan review and board members; and distraction from other priorities while the implementation is in process and in the transition period while people get comfortable with the new data. The training element can be very costly as the people involved are typically high cost and taking lenders and others out of production for training also results in lost business.

Question 4: All of the proposed elements will require a complete redesign of our classification process and attendant training of people involved.

Question 5: No comment.

Question 6: No comment.

Question 7: Guarantors have to be evaluated on a case-by-case basis on the facts and circumstances of the situation. A lending institution needs to have flexibility in classifying loans to take into account the strength and willingness to perform of guarantors.

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We do not support this proposal as being a requirement for lending institutions with respect to computation of the ALLL.

Sincerely,

J. Robert Kelly

J. Robert Kelly
Executive Vice President/Finance