Congress of the United States
Washington, DC 20515

September 25, 2012

The Honorable Ben Bernanke
Chairman of the Board of Governors
Federal Reserve System

The Honorable Tom Curry
Comptroller
Office of the Comptroller of the Currency

The Honorable Marty Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation

Dear Chairman Bernanke, Comptroller Curry, and Acting Chairman Gruenberg:

We are writing to express our concern with the proposed implementation of the Basel III capital requirements that were released for comment in June. In particular, we are concerned that regulations developed by the international community for the global banking system are being imposed on financial institutions of all sizes, including small community banks in rural Oklahoma.

Oklahoma banks currently hold record amounts of capital, and on the whole, the Oklahoma banking community maintained healthy balance sheets through the entire financial crisis. This is not surprising since Oklahoma banks have followed a community banking model for decades. They are not large, interconnected financial firms underwriting complicated derivatives. Rather, banks in Oklahoma serve as the bedrocks of their communities. They make mortgage loans that would never be serviced by large international banks; they invest in community bond issues that bankers in New York would never have the patience to construct; and they have personal relationships with their customers, allowing them to judge their clients' integrity and character better than any credit score.

These functions cannot be replicated by big box banks. But many small banks in Oklahoma are at risk of closing or being consolidated because the excessive cost of regulations has made it too difficult for them to stay in business.

Much of the threat to Oklahoma banks' competitiveness has come as a result of a dramatic tightening in regulatory enforcement. But the changes to bank capital requirements being made by your proposed implementation of Basel III are equally threatening.

Critically, the change in definition of capital and the increase in the risk weights of many asset classes will squeeze banks even as their broader regulatory burdens are increasing. Many banks will simply stop making loans in certain lending areas because of the new risk-weighting requirements being imposed by your regulations. This is to the detriment of Oklahoma banks and the communities they serve.

With these thoughts in mind, we would appreciate knowing your answers to the following questions:

- As you developed the Basel III proposals, how did you measure the impact it would have on the industry's smallest institutions?
- Did you determine whether the added cost of these regulatory changes would be justified by commensurate improvements in the safety and soundness of the financial institutions?

- If these rules are designed to protect the economy from the impacts of systemic risk, why are they being assessed on the country's smallest banks in the same way that they are on the world's largest?
- Further, as Basel III and Dodd-Frank regulations are implemented and small banks are forced to close or sell, how do you estimate this will affect the quality of life and access to capital in rural Oklahoma?
- How will the incentives for investors to invest in and capitalize new banks change as the cost of compliance with complicated regulations continues to escalate?
- If the incentives decrease, how will this impact the broader competitiveness within the banking industry?
- Further, how do you estimate the expected reduction in capital access will impact long run economic growth in these small communities, which are driven by small businesses?
- Ultimately, does the Federal Reserve intend to completely exempt smaller financial institutions from these regulations?

We are eager to maintain and appropriately improve the safety and soundness of the nation's banking system. We are concerned, however, that the current approach is an overreach and could ultimately place a drag on the economy. We look forward to your response and hope you take seriously the concerns we have for the communities we represent.

Sincerely,

Senator James M. Inhofe

Senator Tom Coburn, M.D.

Frank D. Lucas
Representative Frank Lucas

Representative John Sullivan

Tom Cole
Representative Tom Cole

Representative Dan Boren

Representative James Lankford