IRONHORSE
FINANCIAL GROUP, INC

October 11, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. We are a Subchapter S family owned community bank holding company based in Muskogee, Oklahoma with two community banks serving both rural eastern and northern Oklahoma and the more urban Norman-Oklahoma City market. As of June 30, 2012 we were a well capitalized bank holding company with a Tier 1 leverage ratio of 9.75 and Total risk based capital ratio of 15.06.

We would request that Ironhorse Financial Group, Inc. be allowed to continue using the Basel I framework for computing our capital requirement. We do not engage in highly complicated or leveraged transactions that are common to the largest banks. Our model is based on a relationship with our customers and our communities and has been since our banks began, one born in 1909 and the second purchased in 1988. We feel we have practical, common sense views of managing risks. The larger banks within the nation are transaction based and do not focus on the customer relationship. We did not engage in the types of transactions that created panic within the financial markets. The banking models are different and should demonstrate the need for a different set of capital standards based on the complexity of possible loss.

Our bank holding company currently holds 22 million in trust preferred securities, all of which is presently available for inclusion in Tier 1 capital. We differ with the proposed ten year phase-out of the trust preferred securities. We believe it was the stated intent within Dodd-Frank to permanently grandfather tier one treatment of these instruments issued by bank holding companies below $15 billion. Phasing out this important source of capital would be a large burden resulting in a reduction of 2.2% in the Tier 1 Leverage ratio. The phase out over ten years does not provide enough time to replace this important source of capital. The effect on a family owned Subchapter S community bank holding company will be a severe limitation on any subsidiary bank growth. In addition there would be major limitations on any capital return to the owners beyond the tax withdrawals necessary for payments to the Internal Revenue Service. The economy within our communities cannot expand with such limitations on our growth.

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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The inclusion of the AOCI or accumulated other comprehensive income in capital for community banks will result in an increase in the volatility in regulatory capital balances. As many community banks, all of our securities are held as available for sale. The current inclusion of AOCI, with the current rate environment, would serve to increase our capital ratios. We all know that the current low interest rate environment cannot continue indefinitely as the economic recovery comes to fruition. The recent government intervention in the government guaranteed securities has produced inflated valuations. As interest rates rise, fair values will fall as is documented within the interest rate models produced by our ALCO committee. If interest rates increased by 300 basis points, the banks' portfolios would show a paper loss of $25M with a corresponding reduction in the bank's tier one ratio of 2.49%. The intent of our banks leans closer to the intent to hold the securities to maturity and that would be the option we would be forced to make. We have had the liquidity to make that decision and would follow that path. The larger institutions do mitigate risks with swaps, options, and futures contracts. We do not feel community banks have the expertise to engage in those transactions and manage the associated risk. We feel the unintended consequences of these requirements will change the purchase behavior of our banks, to the detriment of our net interest margin and net income. Community banks should continue to exclude the AOCI from capital measures.

The implementation of capital buffers for our banks will be difficult to achieve and should not be implemented. Our holding company would currently meet the buffer levels. We will not have the ready access to increase capital with a Sub S corporation family owned holding company. The only way for the community bank holding company to meet the requirement is to grow capital through earnings accumulated over time. The current low rate environment and increased regulatory demands has further hampered the ability to increase income. The Subchapter S corporate structure banks have a large conflict with the restrictions versus the requirement that its shareholders pay their income taxes on earned income to the Internal Revenue Service. Please allow the capital conservation buffers be suspended during any period the holding company does generate taxable income. If the regulators are unable to exempt the community bank holding companies from the capital conservation buffers, perhaps additional time should be allotted, perhaps to 2024, to allow for the economic cycle to improve and the companies to accumulate earnings.

The proposed risk weight framework under Basel III is a complicated calculation which may result in a slowdown in lending at the same time the economic goals of the nation are to increase lending. The increased risk weights for second mortgages, balloon loans and interest only loans will eliminate the ability to continue that option for our customers. The only loans that the bank will be able to make will be 15 or 30 year mortgages but the duration will not be acceptable in any interest rate model projection of higher rates. There are additional costs that will be borne to make the needed software updates to meet the reporting requirements. All the reporting can be met but the result is less capital for the bank holding company when the stated result the regulators want is more capital. Community bank holding companies should be allowed to stay with the current Basel I risk weight framework for residential loans.

Please consider these comments and allow the community bank holding company to survive. We offer the best person to person service in the communities we serve. The large banks would not be interested in our communities as the high volumes would not be possible. The current economy and the current regulatory burdens of Basel III will not allow our community banking model to survive.

Regards;

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President/CEO

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