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Chief Executive Officer

May 3, 2011

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Ave, NW
Washington, DC 20551

Docket No. R-1413

Also Via E-Mail: regs.comments@federalreserve.gov

Dear Ms. Johnson:

This letter is in response to your request for public comment on proposed amendments that would repeal Regulation Q, Prohibition Against Payment of Interest on Demand Deposits.

BancFirst is an Oklahoma business corporation and financial holding company headquartered in Oklahoma City. The company provides a wide range of retail and commercial banking services, including lending and depository products. As of December 31, 2010 the company had total loans of $2.8 billion, total deposits of $4.5 billion and total assets of just over $5 billion.

We oppose the repeal of Regulation Q on the grounds that by doing so would raise the interest rate risk and liquidity risk profile of the system's commercial banks. This increased risk position would have the long term potential to weaken the financial condition of the core of this country's payment system.

Admittedly in today's rate and lending environment, the ability to pay interest on commercial demand deposits would have a small effect on the balance sheet and income statement of most commercial banks. However, we are now in a unique rate environment of near zero short term rates and widespread deleveraging efforts of many over-lent banking organizations. This condition will not last forever and the long term negative ramifications of turning demand deposit accounts into rate sensitive liabilities will be compounded as rates move up and funding pressures become more acute. In many institutions and especially community banks, this conversion of core funding into rate sensitive liabilities will transform the bank's asset/liability position from an asset sensitive institution to a liability sensitive position. Then the adjustments that need to be undertaken, but are inherently unprofitable, are not chosen.

Also a risk to the financial system is the aggressive action that highly leveraged banks might take in order to reduce their Other Borrowings. This would not be in the best interest of the financial system, especially community banks, as it would only drive up the overall costs of funding and reduce profitability of many financial institutions at a time when profitability has already been weakened by credit issues and interest margin compression.

With the level of Cash Management services and Sweep Accounts many commercial customers have already taken advantage of maximizing interest on demand deposit accounts. Many commercial customers choose to leave a minimum balance to cover transaction charges. That would not change or the customer would choose to pay "hard dollar" charges.

Demand deposit accounts are just that; accounts that can be redeemed without penalty upon demand. It is easily foreseeable that in many competitive markets, the rate for these deposits could be priced well up the term structure of rates, not on an overnight basis as logic would present. Once faced with this scenario of increased expense, the easy answer is to increase leverage to meet required rate of return benchmarks. On too many occasions in our recent past, the profitability and rate of return metrics have dictated more and more leverage while the coincident addition of risk has been neglected and ignored.

We ask that these elements be considered as the Board reevaluates the long term consequences of the repeal of Regulation Q.

Respectfully submitted,

Dennis L. Brand
Chief Executive Officer