First Arkansas Bank & Trust Member FDIC

Larry T. Wilson
Chairman,
President and
Chief Executive Officer

October 15, 2012

The Honorable Martin J Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Ben S. Bernanke
Chairman
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: Basel III proposal

Dear Sirs:

This letter includes my comments on the above-referenced proposal that will have dramatic effects on all U.S. banks if it is implemented. I understand the apparent approach that, "If we require one bank to do this, we should require all banks to do it.". However, that approach has absolutely no application to this situation! As I understand the process, the Basel talks originated because leaders of various nations became concerned about comparing the relative strength of banks involved in the worldwide economic arena.

It is also my understanding that the original intent of the talks, and any proposed regulations that might emanate from those talks, would only address the mega-banks involved in that arena. When did the "train jump the tracks" on this one? Who came up with the ridiculous idea that we should force all of the 7,000+ banks in the country to spend countless hours and resources to "play this game" when the intent was to focus on about maybe 50 or, at most, 100 of the nation's largest banks? I can assure you that no one in Sweden, Botswana, Pakistan or South Korea has any need whatsoever to evaluate First Arkansas Bank & Trust any more than our regulators already do (and that information is readily available for all to see!). Why didn't someone have the courage to stand up for the nation's community banks and simply say, "This proposal won't work for the vast majority of our nation's banks. We only need to focus on the very few large banks that are actively involved in the international economic arena. We need to leave the other banks alone."?

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At a time when our nation's economy is struggling, the banking industry needs to be focused on doing the job for which they are charged: fostering economic development. Instead, we are forced to take time to write letters to regulators asking them to step back and apply a good dose of common sense to an issue that should have never affected our bank in the first place. I attended a meeting about this proposal in Dallas which was sponsored by the FDIC. The bankers in attendance unanimously told the FDIC representatives present that the proposal made absolutely no sense and, if implemented, would stifle loan activity. Bless their hearts, the FDIC representatives would not defend the proposed new regulations (there is no valid defense!), but would politely ask us to write comment letters to the Corporation, the Federal Reserve, and the OCC. What a waste of time...a meeting where the hosts will only tell you to write comment letters instead of having a meaningful dialogue and either agree or disagree (and provide some justification for the disagreement) with our concerns.

The nation's banks are paying significant assessments for state, FDIC, Federal Reserve, and OCC oversight. Why are the very people that are being paid to look after the safety and soundness of our nation's banking system not speaking up and saying, "This proposal does not improve safety and soundness one iota and does, in fact, make it more difficult for the majority of the banking industry to serve its customers."?

If our nation's banks need more capital, then provide the empirical evidence which supports that conclusion, determine reasonable capital levels based on that evidence, and simply raise the capital ratios. In the Basel III proposal, you have gone to great lengths to complicate an issue that is not currently complicated and has worked extremely well for the 40+ years that I have been in banking. I have seen absolutely no study, and no verification of any kind to back up the need for the proposed regulation. You should take a dose of your own medicine and not enact any new regulation unless you have empirical evidence that would support the need for such a regulation (and that the proposed regulation should, indeed, need to be applied to <u>all</u> banks). It's kind of like saying, "If you don't have an appraisal that supports the loan amount requested, you have no basis making the loan." Ring a bell??

While I am firmly convinced that the whole proposal should only be applied to the nation's largest banks and the other 7,000 or so banks should be left totally out of this discussion, there are a few specific details on which I want to comment:

1. The idea that you now "phase out" the trust preferred securities for certain banks is really a slap in the face to those banks that would be affected if the proposed regulation goes into effect. We are one of those banks. We made significant capital planning decisions (you guys want and expect us to do that!) based on the regulations in effect at the time. Now, you propose to change the game. You want us to be consistent in what we do as a bank, yet you don't seem to apply that same type of criteria to what you do in terms of regulations. Are you going to change back next year? Two years from now? How can we confidently make capital plans for the future (you guys want and expect us to do that!) when we have no idea when you will change the rules of the game again?

2. The idea that we now have to add or subtract the unrealized gain or loss on our investment portfolio to get our "real capital" is similar to the "trust preferred" comment. You make a regulation, we abide by it, and then you change it without what appears to be any critical thinking about the ramifications of the change. We are a family-owned and managed bank. Because we don't have to be concerned about numerous stockholders and analysts fretting over unrealized gains or losses in our portfolio, we simply classified all of our investments as "available for sale". That designation gives us the flexibility to sell some of those investments if we need liquidity for the bank. The proposed regulation, if enacted, will provide distorted capital levels because of interest rate fluctuations: lower capital ratios in high interest rate scenarios, and higher capital ratios in low interest rate scenarios. We have no intention of selling investments when there are significant losses in their market value because of interest rate fluctuations. As I assume that you understand, all we need to do is hold on to those investments until maturity and (surprise, surprise) there is no loss whatsoever! If there are banks with liquidity problems that may be forced to sell some or all of their investments at an inappropriate time to the market, then deal with those few banks and leave the rest of us alone!

3. This whole risk weighted asset proposal sounds good in theory, but creates more problems than it solves in reality. How can any of you propose, with a straight face, that a loan with collateral (a home equity loan, for instance) should have a higher risk rating than an unsecured loan of the same amount? What are you guys smoking? When we see regulations that defy common sense, like this proposal, we have to wonder if anyone is really reading what you are sending out to us. We're supposed to be on the same track as our regulators: to provide a safe and sound banking system to facilitate our nation's commerce and foster economic development. Did anyone consult any bankers to get their input on such significant issues before this got to be a "proposed regulation"? I can't imagine that any banker in their right mind would say that such a regulation is needed and appropriate.

This portion of the proposed regulation is, of course, a classic over-reaction to situations that developed during the recent financial crisis. Ray Charles could see that banks with significant concentrations in any one type of loan are, by their very nature, riskier than banks without significant concentrations in any area. Instead of forcing all banks to play this new game of "risk weighting" all of their assets (at considerable cost in terms of time and money!), why not require the banks that have the additional exposure to do so? What a concept: Require the banks that are taking the most risk to spend time and effort to show that they have the capital to support that additional risk! The examiners who are charged with determining the safety and soundness of a bank have the capability to determine that a bank is taking additional risks and the management of that bank should, therefore, be required to further analyze those risks and determine that the appropriate capital levels are present which should support those risks.

4. This proposal also creates additional capital requirements for the "reps and warranties" involved with mortgage loans sold on the secondary market. Once again, this obviously was proposed because of the "sins" of a few banks and the rest of us will be paying the price if the proposal is implemented. Here's a crazy thought: Require additional capital from the very banks that are sending incomplete, inaccurate, or fraudulent loans to buyers on the secondary market and leave the rest of us alone! We're not part of that "problem" and don't need to be included in the "solution"!

Perhaps you are seeing a trend here: <u>This proposal is designed to "fix" a problem in which a very few banks were part of the "cause". The 7,000+ banks that were not involved in the "problems" simply don't need to be involved in the "fixes".</u> Please have the gumption to say <u>"We don't need to burden community banks with any additional, unwarranted regulations that are aimed at fixing problems in which they were not involved."</u> By doing so, you will be enabling those banks to focus on their primary function of lending to qualified borrowers to facilitate economic growth for our country. Thank you for your consideration.

Sincerely,

Larry T. Wilson

Larry T. Wilson
Chairman, President, and CEO

Cc: Senator John Boozman
Senator Mark Pryor
Congressman Tim Griffin
Congressman Mike Ross
Congressman Rick Crawford
Congressman Steve Womack
Richard Cordray, Director, CFPB
Candace Franks, Commissioner, Arkansas State Bank Department
Frank Keating, Executive Director, American Bankers Association
Bill Holmes, Executive Director, Arkansas Bankers Association