Farmers State Bank
OF QUINTON, OKLAHOMA
SINCE 1908

October 10, 2012

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

RE: Basel III Capital Proposals

Ms. Johnson:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued. My name is Chris Jordan, President of The Farmers State Bank, an $85 million dollar institution in rural Southeastern Oklahoma.

Farmers State Bank is owned by the Jordan family, which consists of myself, my parents and my sister. We control over 95% of the bank. We employ about 43 hard-working people that contribute greatly to our success. We engage in what we like to call "traditional community banking". With that, the relationships we have with our customers are at the core of our business model. We operate in small communities, where our staff members serve as school board members, church secretaries and little league coaches. In my mind, Farmers State Bank is the very definition of a "community bank", and I'm proud of that.

Our current Chairman of the Board has 44 years of banking experience and our Executive Vice President has 40, and they managed the bank during the 1980's, a time when Oklahoma was "ground zero" for bank failures. Together, they successfully led this bank through that time using a common-sense, fiscally responsible and conservative approach. Difficult lessons were learned from that experience, and they've passed those lessons on to our current management team, and continue to mentor us on how to navigate the bank through problematic economic periods.

We're conservative and we understand capital and how important it is to our success. Put another way, "we know about capital". Simple equals better in our world. Maybe more pertinent to this whole discussion is the fact that if we fail, we won't wreck the entire U.S. economy.

There are primarily two issues that concern us about this proposal. First - the new risk weightings for Residential Real Estate, and secondly, the inclusion of AOCI in the capital calculation.

I'll start with a brief explanation of the issues we have with the proposed Residential Real Estate risk weightings. About 40% of our loans are Residential Real Estate. We've been servicing this market for 30 years. These are owner-occupied properties that have historically shown very low risk. Our net charges-offs in this category over the last 10 years has been 0.04% - that's about $150,000 dollars over a period of 10 years. Let me be clear - we're not talking about 95% loan-to-value mansions, condos, or developments with ridiculously overstated appraisal values. These are our neighbors building or buying a home to fit a growing family, who've scrimped for a few years to save up their down-payments.

If we understand the rules correctly, they don't have an adverse effect on our risk based capital at this time. However, there's been much discussion and conflict over the interpretation of the rules, and to be truthful, we're still not certain about whether we have a good understanding of what's proposed. When we set about calculating the ratios, we also found that it was very difficult to extract the information required from our core system.

Most troubling for us, however, is the AOCI. This has the most volatility and potential to negatively affect our capital. A 300 bp shock at this time would put us below the fully phased-in well-capitalized minimums. This would restrict our ability to pay dividends, and because we're a sub-s institution, that presents a major problem. The ultra-conservative approach we would need to implement to decrease this volatility would put downward pressure on our earnings, further limiting our ability to raise additional capital. I don't believe for a moment that when lawmakers set about writing these proposals, that they intended to put these kinds of burdens and restrictions on the small banks that act as the backbones of their communities, but we fear that's what will occur.

In closing, I'd like to summarize a few key items:

- The dollars and time used to calculate, monitor and report these requirements would be better utilized by allocating them directly to our capital.
- We raise capital through retained earnings, and these requirements will hinder that potential.
- We believe that the majority of bank failures are due to risky and irresponsible banking practices that we do not engage in. There's probably no amount of capital that could have mitigated the risks that they were taking. It's an unfair and unwarranted assumption that a typical community bank engages in the type of behaviors that failed banks have.

We respectfully ask that you do not include banks under $50 billion in assets in these proposals.

Sincerely,

Chris Jordan, President

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