October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
20th Street & Constitution Avenue NW
Washington, D.C. 20551

RE: Comments on Basel III Capital Requirements

Dear Ladies and Gentlemen:

This letter is being drafted on behalf of the Banking and Other Financial Institutions Committee of the Oklahoma Society of Certified Public Accountants. Our group represents CPAs with many years of experience, engaged in both public practice with banks as clients and CPAs engaged as employees of banks at all levels of management. Based upon your definition, the greatest majority of banks in Oklahoma are traditional community banks. After careful review of the proposal, the following points are of great concern to our committee based upon the adverse impact we believe these capital standards would have on the ability of the banks in Oklahoma to serve their customers.

The majority of banks in Oklahoma are located in rural areas of the state. For many years, community banks have provided mortgage loans to residents in their communities for the purchase of their personal residences. Due to the short-term funding sources of community banks, these residential mortgage loans have been structured with a short-term balloon maturity to match the funding model of the bank, but have a payment based upon a 15 or 30 year amortization to make the loan affordable for the customer. This type of lending has been going on for years in these communities because, quite frankly, large mortgage lenders aren't willing to make loans in these small rural communities. These residential mortgage loans have been a good source of quality loans for the community banks. However, community banks may have to stop making these loans or reduce the amount they make due to the 50% risk weighting assigned to balloon residential mortgages in Basal III. This risk weighting seems excessive since the net charge-offs on all 1-to-4 family mortgage loans made by community banks up to $5 billion in asset size were only 1% at the height of the recent recession. Community banks know their customers and their charge off history proves they understand how to underwrite residential real estate mortgages with little capital exposure to their banks.

Home equity loans have also been identified as a high risk category and classified as Category 2 mortgages with 100% risk weighting. Again, community banks do a good job of underwriting these loans. During the recent recession the net charge offs on home equity loans were only 1.11% of total home equity loans for banks under $5 billion in assets. The risk weighting proposed by Basel III simply does not match the historical loss experience for this category of loans.

The impact of available-for-sale gains or losses on Tier 1 capital is of great concern to our community banks. By using the comprehensive income approach, the capital of the bank could be viewed as volatile by calculations not based on the financial strength of the banks' balance sheet, but on the amount of unrecognized gains or losses in the investment portfolio. Over the past five years, community banks have realized great increases in the amount of deposits they have on their balance sheets. With the economy still recovering from the recession and loan demand low, these deposits have been invested in the banks' securities portfolios. When interest rates increase, the investment portfolios will have an increase in the unrealized losses in their portfolios. This could prompt banks to reallocate their investment portfolios and could adversely impact the amount of money available for loans to small businesses and consumers.

Oklahoma has 163 Subchapter S banks out of the total 238 bank and thrift charters in the state. The capital conservation buffer may require these Subchapter S banks to change their operations to maintain capital requirements above the conservation buffer required for the distribution of earnings. In this situation the individual shareholders bear the tax burden, but the capital standards may not permit an institution to pay distributions to these taxpayers to cover their equitable share of the tax burden. However C Corporations will absorb the tax liability within the normal operations of the bank without regard to the capital ratio. Since most Subchapter S banks tend to be smaller community banks, this will limit the number of loans the banks can make to support economic growth in smaller and many times rural communities throughout Oklahoma.

We respect the fact you are trying to establish capital standards to reduce the risk in the banking system. It is obviously a challenging task. However, we believe these capital standards should be imposed upon the banks with the highest amount of risk in their banking model and not on community banks that have proven they manage risk well even during The Great Recession. We respectfully request you carve out of the requirements of Basel III all banks less than $10 billion in assets and allow the existing capital standards to remain for those banks.

Respectfully,

/S/ Tom Pharaoh, Chairman	/S/ Thomas Elliott	/S/ David Hays
/S/ Jane Haskin	/S/ Elizabeth Humphries	/S/ Charles Painter
/S/ Vicky Petete	/S/ Mary Stuckey	/S/ David Young

Members of the Banking and Other Financial Institutions Committee
Oklahoma Society of Certified Public Accountants