Arkansas State Bank Department

Candace A. Franks
Commissioner

Mike Beebe
Governor

October 18, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064-AD95

Office of the Comptroller of the Currency
250 E Street, SW, Mail Stop 2-3
Washington DC, 20219
Docket ID OCC-2012-0008

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. R-1430;
RIN No. 7100-AD87

Dear Sir or Madam,

I appreciate the opportunity to comment on the joint agencies' Notices of Proposed Rulemaking on the Basel III capital accords and the standardized approach for risk-weighted assets. As Bank Commissioner for the State of Arkansas, it is my responsibility to oversee all 95 Arkansas state chartered commercial banks and to specifically ensure that our banks operate in a safe and sound manner. As a career regulator, I am wholly supportive of strong levels of capital and I am equally supportive of regulations which would provide for and strengthen the level and quality of minimum required capital for the banking system. With that said, as Bank Commissioner, I am also concerned that the proposed capital rules could have unintended negative consequences.

My office is concerned that the proposed rules could introduce undue complexity to the capital planning process for banking organizations. In my view, the current proposals would require institutions to manage their capital levels with an excess of consequential measures. This would include new minimum capital requirements, new additional capital requirements for capital conservation buffer purposes, and new Prompt Corrective Action requirements. It is imperative that all rules be easy to understand and simple to manage.

I am also concerned that if the proposals were finalized in their current form, the resulting impact would likely filter down and affect not only how community banks transact their business, but affect their overall business model as well. For example, the proposed rules include a complex method for risk-weighting residential mortgages that likely will curtail bank lending in traditional mortgage products.

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Community banks are the economic center of many cities and towns in Arkansas and are essential to providing support to our small businesses and promoting strong communities. I have heard from many of the institutions in Arkansas and the comments are consistent. Our bankers are apprehensive of the proposed rules and their ability to plan and manage their future capital positions. I believe the proposed capital rules, if implemented, will have a significant role in how banks analyze their ability to continue to serve their customers and their communities in the years ahead.

The economic crisis underscored the need for transparency in our financial system. The complexity of the proposed capital framework under Basel III and the standardized approach ultimately could result in less - not more - transparency in the banking system. It was not the process for measuring capital that tipped the banking industry toward a deep downturn that continues to have repercussions years after its advent. Rather, it was a deficient process of risk management that brought the industry to that "tipping point." Accordingly, I believe a more effective response would be to focus on improving methods of risk management in the industry and the process of supervision for which I am responsible. That process is most effective when measured regulatory expectations are conveyed with maximum clarity.

I encourage the agencies to closely consider the comments, suggestions and concerns of those who will be most impacted by the proposed rules – our community bankers. In addition, prior to the issuance of final rules, I strongly believe the Agencies should evaluate, with a long-term perspective, a capital framework that is tightly aligned with the responsibility of regulators and consistent with all the business models of our banking industry.

Cordially,

Candace A. Franks

Candace Franks
Bank Commissioner

cc: Honorable Mike Beebe, Governor of Arkansas
Bill Holmes, President and CEO, Arkansas Bankers Association
Richard Trammell, Executive Director, Arkansas Community Bankers Association