From: Farmers State Bank, Laura K. Miller

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

About four years ago, we took a very aggressive approach to our allowance for loan loss, considering the national economy and uncertainty in how our communities, in eastern Oklahoma, could be affected. We especially were concerned for a slow-down in the natural gas business, which provides employment and supports the majority of our small businesses.

Oklahoma is recovering and the affect to our communities have been minimal. Our net losses for the same period have been very low, and as a result, the bank has made very little additional allowances to the reserve since 2009. Although our current reserve adequacy testing results in an excess reserve, we would prefer not to reduce the current level. For capital planning purposes, considering Basel III proposals, management raised the question of such a transfer should it become necessary to increase capital.

Our concern on the Basel III proposal is the inclusion of unrealized gain/loss of our security portfolio and possible increase to risk weighted average assets, based on the size of our 1-4 family residential and other mortgage loan portfolio. Along with years of unprecedented deposit growth and weak loan demand, these actions place additional burdens for staying above the "control buffer" to mandatory capital ratios for an otherwise healthy and financially strong institution. Should interest rates begin to rise, the unrealized gain could easily turn to unrealized loss as has happened in the past. Our mortgage loan portfolio is a result of taking care of small farm, small business, and residential mortgage applications that would not qualify in the secondary market - typical for small community banks. This area of lending has been good for the bank and the communities we serve.

Current methods for determining capital ratios should allow 100% of allowances for loan losses. Due to our conservative and aggressive action, preparing for the recession and continued economy uncertainties, we are penalized by having excess loan loss reserves. As of the June 2012 call report, $480,000 of our reserve for loan losses was excluded from capital calculations. Why?

Main street community banks are not the problem and should not be included in adverse and burdensome regulation.

Thank you for the opportunity to voice our concerns and opinion.

Laura Miller
Farmers State Bank