



## AMERICAN HERITAGE BANK

An American Institution Since 1905.

August 29, 2012

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

Office of the Comptroller of the Currency  
250 E Street, SW  
Mail Stop 2-3  
Washington, DC 20219

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation,  
550 17th Street, N.W.  
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals<sup>1</sup> that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the “banking agencies”).

The Basel III proposals are complex and challenging to implement for community banks. The change in risk weighting for various assets groups will require additional systems, training, and personnel. The uncertainty of how Basel III is implemented creates undue anxiety on banks, banking agencies, and the public. Further, the proposals will contribute to slowing the economic recovery. Banks will be unable to grant needed residential loans, i.e. junior mortgages and balloon loans; banks will be unable to grant commercial real estate (CRE) loans needed to stimulate economic growth; and banks will be unable to work with individuals and businesses suffering through difficult economic times.

American Heritage Bank serves 10 small communities in northeastern Oklahoma. Our communities range in size from 1,100 to just over 20 thousand people. Six of our communities have a population less than 2,000. We are the only financial institution in most of these small towns. Our balance sheet is noncomplex. We do not use derivatives, nor do we have a trading desk. Our only off-balance sheet items are commitments on consumer and commercial loans and letters of credit.

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<sup>1</sup> The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets*; *Market Discipline and Disclosure Requirements*; and *Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule*.

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As you can see, American Heritage Bank is a low risk institution and in many cases the only alternative for our customers. The Basel III proposals will affect our ability to meet the needs of our customers. Increasing the risk weighting on junior mortgages and balloon loans will eliminate this product. I understand mortgage brokers and to some degree banks, used complex mortgage loans, but junior mortgages and balloon loans are legitimate lending products that have been used effectively for decades.

Banks, including ours, need to grant CRE loans within their communities. CRE loans are a sign of prosperity. Yes, bubbles occur and some markets become overheated, but changing the risk weighting on these loan products will have unintended consequences. Increasing the risk weighting means, American Heritage Bank will have fewer resources to assist community leaders in stimulating the local economy. Larger institutions that are not familiar with our communities will be less apt to provide needed funding for important projects. Many community banks have come under increased regulatory scrutiny for their involvement in CRE lending. Most of these institutions became problem banks because of their volume (high concentration) and lack of risk management. The banking agencies have already addressed these problems through various issuances and the examination process. Banking agencies already have the necessary tools to ensure credit risk from CRE lending does not become catastrophic for individual banks or the banking system.

American Heritage Bank, as I am sure most community banks, has always worked with our customers when the customer fell on difficult financial times. Increasing the risk weighting on past due and nonaccrual loans will result in bank's not having the ability to assist families and businesses who are struggling. The banking agencies and the accounting industry have already addressed the impact of problem loans on banks through a sound Allowance for Loan and Lease Losses methodology that is both directionally and proportionally consistent. Over the last 10 years, banking agencies have emphasized the need for sufficient Allowance for Loan and Lease Losses and management's analysis to be consistent with Generally Accepted Accounting Principles. The banking industry already has the needed tools. The problem is not that banks need more capital, the problem is banks and banking agencies need to identify the risk and properly allocate for it.

Basel III proposals are an attempt to create "more resilient banks and banking systems". My perception is the banking agencies believe banks have an elevated level of on and off-balance sheet risk and I am sure many did; however, I would urge the banking agencies not to overreact. Think of the unintended consequences of Basel III proposals. As I stated above, in most of the communities we serve, American Heritage Bank is the only financial institution there. If the banking agencies limit our ability to provide financial products and services, families, businesses, and communities will be hurt.

Respectfully,

Steven R. Burrus  
Senior Vice President  
Chief Credit Officer  
American Heritage Bank  
Sapulpa, Oklahoma

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