August 6, 2012

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[1] 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").

As the CEO of a $660 million community bank based in Paris, Tennessee, I am very concerned with the economic impact that Basel III will have on our communities as well as the negative effect that it will have on the banking industry. While numerous provisions in the proposal are troubling, we have modeled our balance sheet using two measures of the proposed Basel III regulations: the risk weightings within the loan categories and the flow through of the Available for Sale of our securities portfolio. We have found the following results...

If we adjust the current risk weightings of our loan portfolio to the proposed risk weightings, we will see a reduction of 255 basis points in our total capital ratio. Although we will still be well capitalized, the already conservative lending philosophy of our institution will become more restrictive to insure that we preserve more than a sufficient amount of capital. The proposal's treatment of balloon mortgages, caps within the period of exposure as well as the treatment of Home Equity Lending makes these provisions very problematic for our bank and for many community banks. We are at a point in the economic cycle where we need all banks to make good, common sense lending decisions. The effect of the proposed risk weight changes will constrict lending across the entire industry and further restrict our communities' economic growth as banks insure that we preserve capital. We are "cash flow" lenders that enjoy a very conservative credit culture. These provisions will make it more difficult to serve the customers in our communities, and as a result hinder their economic growth.

The flow through treatment of the Available for Sale securities portfolio is troubling with the impact to capital in a 300 basis point rate shock. We will see a reduction of 222 basis points of Total Capital in an "up 300" shock. This provision is entirely unnecessary as we have

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[1] 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.*

successfully navigated this issue by not selling these securities during a downturn. The securities that we hold are comprised mostly of U. S. Government Agencies and Municipals and there is little to no default risk which allows the bank to continue to hold the securities and capture the cash flow until maturity. Having to mark these to market will create a tremendous drag on capital that could be devastating to a community bank. At a minimum, Agencies, Municipals and other low risk securities should be exempt from this proposal.

To summarize the impact, the net reduction in capital based on the implementation of the two proposals totals 477 basis points. Once we run these adjustments through our balance sheet, the result is moving from a surplus of 469 basis above the well capitalized risk based capital level to a deficit of 58 basis points below the well capitalized level.

Lastly, the restriction on dividends is of great concern for Subchapter S banks that rely on dividends in order to pay their taxes.

Community banks did not engage in the risky behavior that led to the financial crisis. It is unrealistic and impractical to force community banks to adhere to the same capital requirements as the largest and most complex banking organizations in the world. There should be at a minimum a two tiered approach to regulating the largest banks and the community banks. Just as community banks make common sense decisions regarding the management of their institutions, the regulatory authorities should make common sense judgments regarding the regulation of these institutions.

Respectfully submitted,

Mott Ford
Vice Chairman/Chief Executive Officer
Commercial Bank and Trust Company