From: Sherri N. Shoulders [mailto:sherri_shoulders@fbtco.com] **On Behalf Of** Gary Broady
Sent: Wednesday, August 15, 2012 3:34 PM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Gentlemen,

I am writing to express our concerns with the Basel III proposals as they relate to community banks. Franklin Bank & Trust Company is a community bank of approximately $365,000,000 in assets located in south central Kentucky (FDIC #17937). It is our understanding that our parent holding company, Franklin Bancorp, Inc. would be excluded from Basel III as long as its consolidated assets are less than $500,000,000. That being said, our bank is subject to the provisions.

Our first concern relates to the category of 1-4 family mortgages. Our bank has traditionally made loans on a 15- to 30-year amortization schedule with a fixed rate pricing period of 3-7 years. When the loan matures after the 3-7 year period the balance (balloon) is refinanced over the remaining amortization schedule. This practice is done for two reasons: (1) to avoid an adjustable rate mortgage which is not attractive to most of our customers and (2) the 3-7 year rate lock fits with our asset liability and our interest rate risk program much better than a 15- to 30-year fixed rate. We are of the opinion that a balloon note written under most circumstances should be included in risk category 1 of the 1-4 family mortgage risk weighting rather than category 2.

Our second area of concern is the comprehensive income proposal as it relates to appreciation/depreciation of investment securities held for sale. Our bank is not affected as much as many other community banks due to our higher than average loan-to-deposit ratio but a tremendous rise in interest rates could very negatively affect our securities portfolio valuation. While the proposal to include other comprehensive income is consistent with generally accepted accounting principles (GAAP), major changes in the capital ratios could occur within a short time period. Continuation of the current treatment of excluding the gains and losses would be the more prudent choice.

Thank you for considering our concerns before the issuance of the final rule(s).

Sincerely,

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