CLASSIC BANK

September 7, 2012

FDIC
1750 New York Ave., NW
Washington, DC 20006

Re: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

To Whom it May Concern:

At Classic Bank, we are upset, and justifiably so, over what we believe to be totally unnecessary and inappropriate proposals to redefine capital adequacy for ALL banks, regardless of size or risk profile. That is the Basel Capital Proposal. We cannot recall an issue that has generated more concern, confusion, anger and frustration... and there have been a number of issues and challenges over the past few years. This complex and cumbersome proposal threatens our future profitability, our existing business model and potentially our very franchise. Specifically, we are concerned about the damaging effects of the following elements of the Basel Capital Proposal as follows:

- Available For Sale Securities-

Classic Bank has $245,000,000 in assets and at this time has approximately $67,000,000 in AFS securities. How should our bank deal with this proposal, especially when interest rates rise again? Will we have to create an additional capital buffer as a cushion during value fluctuations? If so, we are taking resources from customer needs and bank growth. Should we limit our investments in longer duration assets? How will this affect local governments and the housing markets? This proposal could cause a number of banks to sell all or part of their AFS portfolios. Have federal regulators considered what impact this will have on the markets for those securities? We are concerned about how this proposal might impact our asset liability function and our liquidity and contingency funding plans. We are a community bank and, as such, should not be thrown into the "mark-to-market" frenzy that has consumed other segments of the financial services industry. The most likely result of this proposal will be an increase in employee time to monitor our AFS portfolio. This may also require us to purchase software to stay in compliance. Both would lead to less time and service for our customers.

- Trust Preferred Securities-

1). Our bank has $245,000,000 in assets and $5,000,000 in Trust Preferred Securities (Trups) in our regulatory capital. Under the Basel III proposal, we would have to decide how to replace the capital, not always an easy task for a community bank. Another alternative is to reduce assets. This could impact our customers because we would be forced to turn away core business.

2). Our bank issued Trups. Under this proposal the investors would most likely sell the securities. An already difficult market would be made worse.

3). At least Trups currently in existence should be grandfathered according to the terms and conditions under which they were originally issued. Changing the regulation of Trups as provided by Basel III is ex post facto and is prohibited by clause 3 of Article I, section 9 of the U.S. Constitution.

- More Capital Required for some Mortgages-

Our bank has $245,000,000 in assets with approximately $80,000,000 in mortgage assets. Our 85 employees provide mortgages in 6 communities. The most likely result of this proposal is that it will cause us to raise capital. Our earnings will also be impaired. Our regulatory burden will increase. Most importantly, it will limit the availability of mortgages in the communities where we offer loans. It also appears that the proposal will play into the hands of the large, multistate lenders to the detriment of community banks. Rural borrowers in Texas, due to recent federal laws, are already confronting a market in which banks are making fewer mortgage loans. This proposal will only make it worse.

- Increased Regulatory Burden-

Our bank has $245,000,000 in assets and 85 employees. We are already laboring in an environment involving increased regulatory scrutiny in compliance exams and the new burdens being placed on us by the Dodd-Frank Act. Our compliance costs alone have increased 200% in the last 10 years.
It appears that as proposed, Basel III will require us to change our internal reporting systems and provide additional employee training. More than likely we will have to hire additional employees. The complexity of the data requests probably means that we will also have to install new software systems and/or look for third parties to provide them. None of these requirements will allow us to help our customers in our community. The compliance costs will pull money out of capital and earnings rather than help our borrowers.
The increasing cost of compliance for community banks is leading to more consolidation in our industry. Basel III, as proposed, will only accelerate this trend.

Federal regulators may not be troubled by a country that has only a handful of banks. From our perspective, community banks still serve a vital function in our economy. It would be a shame if these new international capital requirements help lead to their demise.

In conclusion, the Basel Capital Proposal should NOT apply to community banks. We ask that you reject this proposal and say NO to its applicability to community banks.

Sincerely,

Richard E. Williams, Jr.
President

RWJ/kdh