Bank *of* Franklin

Bradley B. Jones
President/CEO

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov
Subject: "Basel III Docket No. 1442"

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov
Subject: "Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010"

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429
comments@FDIC.gov
Subject: "Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97"

Re: Basel III Capital and Risk-Weighting Proposals

Ladies and Gentlemen:

I am the CEO of the Bank of Franklin, a small community bank in Southwest Mississippi, and I am writing to express my concerns about the recently proposed BASEL III regulations. We are a community bank in every sense of word, and though I appreciate the goal of protecting the banking system across our country, I have serious concerns that these proposed rules will actually constrain our bank's business and ultimately cause our community to suffer.

Our Bank turns 100 years old this month, and we are very proud of our history. We have grown our bank to a four-branch business, and our focus has always been on serving the people of Southwest Mississippi. Our home office is located in the small town of Meadville, MS, which has a population of less than 1000 people. In fact there are only about 8000 people in all of Franklin County. There are about 15 people for every square mile of land in Franklin County, so you can probably tell that we are very rural place, but we're also a very tight knit community and Bank of Franklin cherishes its place in our towns.

We now have approximately $105 million in assets. Despite our rural roots, we have grown by offering citizens of our communities affordable banking products such as residential mortgages and commercial loans, and we try and tailor our products to meet small town needs. We have helped our citizens start their own businesses, buy their own homes, and improve conditions in our communities. However, we fear that the proposed capital and risk weighting rules will have a significant and negative impact on our ability to provide these services and help these communities.

Like most community banks, our assets include a high concentration of residential mortgages that, for valid safety and soundness reasons, do not meet the definition of Category 1 loans that large, institutional banks typically have on their balance sheets. Many of our customers do not want or do not qualify for a Category 1 mortgage due to various reasons, such as no adequate appraisal due to lack of comparables, the size of the loan, or equally important, the amount of land owned or being purchased. For example, someone who purchases 40 acres of land with a home and a barn would not qualify for a typical Category 1 mortgage. As an alternative, a community bank can offer an in-house mortgage product, typically involving a 3, 5, or 7 years balloon, successfully meeting the needs of the customer. The balloon is used solely to protect the institution from excessive interest rate risk, but to the fact that it is not prudent for community banks to carry long term mortgage loans. Instead of turning a quality credit away, we believe that our customers are better served with our shorter terms balloon loans that generally renew to fully amortize the loan.

Under the proposed risk-weighting rules, the increase in risk weighting of these loans may triple in some cases from 50% to 150%. We currently have approximately $16,000,000 of these or similar loans on our balance sheet, which constitute over 15% of our total assets. If the proposed rules are adopted, we may be faced with the decision to protect capital and forego these loans entirely. We have limited access to raising significant capital and the bank will lose a significant source of income if it must forego these loans. The citizens of our communities could be forced to look elsewhere for such products. Their choices will be limited to large institutions – who likely won't be willing to extend credit to these borrowers – or other lending institutions that often only give loans with truly punitive terms and conditions.

For the same reasons, the increase in risk weighting of HVCRE will stifle much of the local commercial development that is vital to our small towns. Members of the community come to our Bank for loans that will allow them to buy the real estate to start their own restaurants, convenience stores, and other businesses. If the proposed rules are adopted, we may be forced to discontinue these loans and shut out would-be business owners.

Finally, the addition of AOCI to the capital calculation adds unnecessary volatility to capital planning. Our AOCI is currently approximately ($375,799). A 100 basis point shock reduces our capital by an additional $245,000, while a 300 basis point shock diminishes our capital by $775,000. This volatility represents only a snapshot in time and does not have any significant impact on our liquidity or risk to the Bank.

As you are aware, the recent financial crisis was for the most part not caused by community banks such as ours. Smaller institutions should not be subject to the same complex standards required of larger and riskier financial firms. I suggest a tiered capital standards approach that recognizes the difference between Main Street community banks and larger, systemically important financial conglomerates. By exempting financial institutions with total assets of less than $1 billion from the Basel III NPR, the FDIC would exclude 6,586 (91%) of the nation's 7,246 FDIC insured institutions (as of June 30, 2012) while still applying the heightened capital standards to 90% ($12.6 trillion) of the industry's total assets. From a risk management standpoint, addressing 90% of the industry's asset exposure, while placing a burden on only 10% of the institutions, seems a logical and effective choice.

We have remained strong through these difficult times because of our willingness to serve our communities and trust in our customers. Yet, the impact of the proposed rules will be borne disproportionately by community banks which lack the resources to implement these excessively cumbersome and complicated rules. If the proposed rules are finalized, we ask that you consider adopting the following:

- Exempting banks under $1 billion in total assets from the Basel III minimum capital and risk weighting rules, or, at a minimum, exempting such banks from the proposed rules as they pertain to residential mortgages, commercial real estate, and AOCI;

- Allow existing assets to be grandfathered in using the current risk weighting rules; or

- Revising the risk-weighting and capital rules to more accurately reflect the risks imposed by institutions such as ours and the realities of our operations.

Again, we sincerely appreciate the opportunity to comment on these proposed rules. We hope that you will seriously consider our comments and the effect that these rules will have on our local communities.

Sincerely,

Bradley B. Jones
Pres./CEO
Bank of Franklin
Meadville, MS

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