



WALNUT RIDGE • HOXIE • POCAHONTAS • BONO

September 28, 2012

Robert E. Feldman, Executive Secretary
Attn: 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 that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The inclusion of Accumulated Other Comprehensive Income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investment securities held available for sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Rates have fallen to historic lows. If rates were to increase 300 basis points my bank's capital would decrease over 16%. My bank has been in business since 1919 and we have been through many interest rate cycles. However, if this component of the proposal survives my bank will not continue in a profitable manner.

The proposed risk weight framework under Basel III is too complicated. Increasing the risk weights for residential balloon loans will penalize community banks who offer these loan products and deprive customers of financing options. All of my bank's portfolio loans are balloon notes. I believe my bank's loss rate is one of the best in the country. Balloon notes are not risky if they are managed correctly. We use balloon notes to mitigate interest rate risk. The customer chooses the note either because they want their loan to stay home or their property does not qualify for the secondary market. If this component of the proposal survives, my bank will drastically cut back on residential mortgage lending. Consumers in rural America will have more difficulties securing financing for a home.

I appreciate you considering my concerns and if I can be of any assistance to you do not hesitate to contact me.

With best regards, I am

Sincerely,

A handwritten signature in black ink that reads 'Milton B. Smith'.

Milton B. Smith
President