Magnolia State Bank

Transmitted via
electronic mail

October 17, 2012

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

Office of the Comptroller of the Currency
250 East Street, SW
Mail Stop 2-3
Washington, District of Columbia 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, NW
Washington, District of Columbia 20429
comments@FDIC.gov
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Greetings:

I would like to communicate my strong opposition to the implementation of the Basel III Regulatory Capital Requirements for Community Banks. While capital is of paramount importance to the banking industry, and in particular to community banking, Basel III will have detrimental effects on our ability to service our community. I will list the reasons for my opposition in order of their significance to our institution.

The change in risk weighting of 1-4 family loans with maturities of less than 30 years:
There are unique features of rural market banking. One of the major differences of rural market banking versus metropolitan market banking is that single family 1-4 loans are not as uniform as they are in metropolitan markets. There are fewer sales of comparable properties (folks tend to stay longer in these areas or they move next door on land a parent deeded them to build their own home). Since many of these loans are not sold on the secondary market, we retain them on our balance sheet in the form of five year balloon loans. We do this for two reasons: (1) to manage interest rate risk; and (2) to manage credit risk. We issue up to five year certificates of deposit and we issue five year balloon loans. This is an over simplification, but by doing this on an ongoing basis our rate sensitive assets and rate sensitive deposits are somewhat matched. If a loan does not pay as agreed, we can inform the borrower that the loan must be paid in full or moved to another institution. It is never our intention not to renew a loan, but it allows for the management of credit risk, thus preserving capital on an ongoing basis. This product is essential in our market. We serve three rural areas with unemployment rates above the national average. Many of these borrowers have credit scores unacceptable by the secondary market. In many cases, we are their only source of home loan financing.

The change in risk weighting of 1-4 family loans with different loan to values:
I fully understand the reasoning that a higher loan to value means in most cases higher risk. While that is often the case in the market at large, when we make a loan to someone with a higher loan to value than the norm, the borrower is most often an A+ borrower with lower credit risk than many of our borrowers with 80% loan to value ratios. There is always a mitigating circumstance that would allow us to loan over 80% LTV. An example might be a parent guaranteeing the debt of a child who is purchasing his first home or a parent using a certificate of deposit to secure the loan. This is still considered a 100% loan for our call report, but the Basel III calculation takes into account no issues or other factors in loans with higher than normal LTV's.

The flow through of all unrealized gains and losses available for sale securities:
This requirement forces us to change our investment philosophy to a much shorter term horizon, thus lowering returns, profits and capital. If the goal of Basel III is to increase bank held capital, this requirements makes little or no sense given that the requirement will lower profits that ultimately lower capital.

Overall Confusion in the model and the ability to correctly input the information required:
I have used three models from different sources to calculate the effect of Basel III on Magnolia State Bank. All three models have resulted in different capital requirements and capital ratios. I'm sure this will be corrected somewhat when there is one standard and accepted template/model, but the input required to simply perform the calculation leaves room for error. I believe that across the community banking world there will continue to be confusion and miscalculation when the requirement is imposed.

Increased training, employee expense and monitoring:
Our bank just hired its 100th employee. We are one of the largest employers in our small town. One of the reasons we have been able to grow, move into new markets and offer additional mortgage lending in rural communities is our strong capital position which is a direct result of

strong earnings. Basel III will require us to employ and train additional people and to monitor and ensure we are complying with this additional regulation. Bank profits will be reduced which will inhibit our ability to retain the capital necessary for additional growth.

Basel III is not a means to monitor or improve the capital position of community banks. It is not a means of improving our capital position.

As I mentioned earlier, we have used three models in an attempt to calculate the effect of Basel III on our institution. All three models revealed that we would still be considered a "well capitalized" institution. However, the additional burden of the regulation, the increased expense of personnel and monitoring and the ability to make sure we are properly calculating the ratio far outweigh any benefits to our institution, our shareholders and most importantly, the communities we serve. While our practices and profitability will remain unchanged, the regulation will classify us as a "more risky" institution due to our lower ratios. This simply does not make sense. From a global or national standpoint, Basel III may make sense, but from a rural, community banking perspective the regulation is totally out of step with what we are trying to do in our communities.

I sincerely ask you to reconsider the proposed regulation and to take into account the many issues being raised by community bankers throughout the country.

Sincerely,

Marcus

Marcus R. Robinson
President and CEO
Magnolia State Bank