Commercial Bank
AND TRUST COMPANY
Established 1877 • Member FDIC

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October 10, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: 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. Our bank is a 650 million asset community bank that has been serving our communities since 1877. We take pride in providing loans in these communities that spurs economic growth and provides jobs. We alone provide jobs to 175 individuals. Unfortunately, we see these new proposed capital requirements as a deterrent to continuing these activities as well as lowering our profits, which in turn build capital.

Currently, our risked based capital is 450 basis points above well capitalized. When we calculated the new risk weightings proposed, we immediately lose 255 basis points. Some of these changes are difficult to estimate, and frankly make no sense. For instance, requiring capital to be held on a line of credit balance when there are no draws made under that line is an example. Yes, it makes sense to keep capital on the line once it's been drawn upon. But not until there is a balance. And if we have secured that loan with a mortgage on a home, it requires a higher capital requirement on the original loan, even though the risk profile of the existing loan has not changed.

Another example is if we have an unsecured loan and secure it with a mortgage, it can require twice the amount of capital, even though we have reduced the risk profile of the loan. A home mortgage loan that carries twice the capital requirement of an unsecured loan is contrary to common sense. The bottom line is the bank is penalized for taking LESS risk.

Another area of concern is the Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks. This 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 temporary changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. However, this is a situation that will change over time and it is unwise to include these current gains in capital.

In our bank, a 300 basis points interest rate shock can remove 222 basis point from our RBC capital. We will in all likelihood never realize any of losses as these securities will mature at par, thus escaping any recognition of a temporary market decline due to rising rates.

These two issues alone have the potential to remove 477 basis points from our capital and move us to a less than well capitalized position. This situation is not acceptable to us and will require changes to our lending policies to prevent it, thus restricting our ability to make loans and help the economic recovery.

Community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. Basel III was designed to apply to the largest, internationally active, banks and not community banks. Community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. Community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk.

The banking community is sometimes guilty of taking "the sky is falling" approach to any regulatory change. This is NOT one of those times. We ask that you please consider this.

Sincerely,

David Flowers
President and CFO