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**Sent:** Tuesday, October 16, 2012 3:29 PM  
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**Subject:** Basel III Capital and Risk-Weighting Proposals

October 16, 2012

Jennifer J. Johnson, Secretary  
Currency  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)  
Subject: "Basel III Docket No. 1442"

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250 E Street, SW  
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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 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429  
[comments@FDIC.gov](mailto: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:

Thank you for taking time to consider the concerns of our bank in regard to the proposed implementation of the Basel III capital requirements that were released for comment in June. We are the Bank of Winona, a \$117 million community bank that services the rural community of Winona and surrounding areas in Montgomery County and central Mississippi. For over 125 years we have been able to provide local folks with opportunities for home ownership, investment for small business and help to improve conditions in the community. We support local charities, sponsor the summer baseball league, participate in fundraisers and volunteer our parking lot for the local high school football games. We, like other community banks, provide a service that is uniquely tailored to the customers we serve by

developing products to accommodate, enhance and enable them to thrive in local economies that are often depressed, short on jobs, and where incomes can be near or below poverty levels. We believe that the support we supply is critical to the financial and civic health of the communities we serve. This is why there is widespread concern over the negative impact that the proposed capital and risk weighting rules will have on our ability to provide these important services.

The enormous volatility that will be added to Tier 1 Capital by inclusion of Accumulated Other Comprehensive Income is alarming. In our situation, for instance, a +300 basis point shift in interest rates will reflect in a negative \$7.8 million loss within our AFS securities portfolio; as opposed to the \$2.5 million gain that we currently report. With interest rates at a historical low, the eventual increase is inevitable. The Bank of Winona has traditionally relied heavily on our bond portfolio as a primary income source. Even with diminished returns due to low rates, bond investments have remained significant due to failing loan demand attributable to negative economic factors. Our current loan to deposit ratio is only 40%.

Single family dwellings comprise 37.7% of our loan portfolio. With median household income in our county of only \$25,270, a significant number of homes located in isolated locations, and very few comparable sales for adequate appraisals in the depressed economy, many of our residents could not qualify for a secondary market mortgage loan. They depend on their local community bank to be able to provide home financing. The Bank of Winona structures in-house mortgage loans to provide the opportunity of home ownership to our customers as well as protect the bank from interest rate risk by offering 90% LTV financing with up to twenty-five year amortizations and one to five year maturities for interest rate adjustment. Under the proposed regulation, this would qualify virtually our entire mortgage loan portfolio as Category 2 loans, requiring a risk weighting of 150%. Besides the obvious affect on capital, from the bank's perspective this would be a definite deterrent to making more of this type of loan and further shrink profits. But to our customer's detriment, it would make home ownership an impossibility for many.

For the same reason, the increased risk weighting of HVCRE will discourage local commercial development that is vital to the economic strength of small towns. Members of the community approach their home town bank for loans that will allow them to purchase and develop real estate to start businesses that provide jobs, stimulate local commerce and bolster community economics. If the proposed rules are adopted, prospective business owners will find financing unavailable, adding to the continued decline of local economic conditions.

With community banks having little or no access to capital markets, we must rely on shareholders to raise additional capital. Being structured as a Subchapter S organization, such volatility created by including AOCI in capital calculations will likely affect stockholder distributions negatively, effectively increasing the personal income tax payable by our investors

and further discouraging additional capital contributions. The effect on net income, as well, in connection with additional expenses of accumulation, reporting and maintaining the sheer amount of data required to comply with this regulation will be significant on small banks in an economy that is already stale and depressed.

In closing, the Bank of Winona recognizes the importance of capital as a source of strength for the nation's overall financial condition. We appreciate your effort to improve and enhance banking standards in the United States in light of the recent financial crisis. However, please note that community banks in the state of Mississippi have remained virtually failure-free in spite of bank failures across the country. We respectfully ask that you please consider the burden that the proposed regulation places on small community banks and consequently the communities we serve, whose future needs may be jeopardized by the resources required to comply with this regulation.

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

Sincerely,

Mike Jones, President  
Bank of Winona