

October 11, 2012

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"

To Whom It May Concern:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for public comment by your agencies. I specifically appreciate the opportunity to discuss my concern about the impact of these proposals – particularly the proposed minimum capital ratios and risk weighting of certain assets – on Peoples Bank and our customers.

I am a shareholder of Peoples Bank, Mendenhall, MS, which serves the towns/cities of Mendenhall, Magee, Collins, and Puckett, MS and surrounding communities. We have nearly \$230 million in assets. Our bank has grown by offering citizens of our communities affordable banking products such as residential mortgages and commercial loans. These products have allowed our citizens to 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.

While Peoples Bank is WELL above the capital minimums outlined in the proposed rules, I am strongly opposed to the implementation of the BASEL III requirements on small community banks like Peoples Bank. The changes to risk weighting of assets again imposes a one-size fits all mentality on bank. BASEL III was designed to be targeted to the largest internationally active banks, this complex piece of regulation is now being applied to small rural community banks, who do not have access to the monitoring and hedging tools available to the larger banks. This is a one-size fits all solution to a complex problem.

Like most community banks, the bank's 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 appraisal due to lack of comparable sales, size of the loan, or credit history. Additionally, it is not prudent for our bank to carry long term mortgage loans. Instead we believe that our customers are better served with our shorter terms balloon loans that generally renew to fully amortize the loan.

Specifically, I am opposed to the changes in risk weighting measures for residential loans for the following reasons:

- 1) Each loan in a bank's portfolio will have to be individually risk weighted! This is a time consuming and labor intensive process for most small community banks. While the larger banks have manpower and technology to employ in this effort, small community banks have focused our manpower on helping to serve our customers. Implementing and monitoring these risk weighting requirements will tie up valuable hours that should be used serving our customers. This will increase the cost of financial services from community banks.
- 2) Raising risk weights on non-traditional residential loans will further limit community banks ability to make non-traditional loans that best serve the needs of our customers.
- 3) This regulation envisions a one-size fits all type of mortgage loan – a secondary market mortgage loan. Anything that doesn't fit in that "box" will carry higher risk weights. In reality, most mortgage loans originated by small community banks do not fit in this box. However, these are mostly held in our portfolios, so we understand the risk in these loans better than those who sell their portfolio.
- 4) Raising the risk weighting for balloon mortgages penalizes community banks that traditionally have made these loans to mitigate interest rate risk. Using balloons allows community banks to offer consumers, especially for loans that don't fit in the secondary mortgage market, an option for a fixed rate loan. Increasing the risk weight will increase the cost of these types of loans.
- 5) The loan loss reserve is how banks account for the inherent risk in delinquent loans. Making banks hold higher equity capital for these loans as well unduly penalizes small community banks. This could lead to bank manipulating their past due loan ratios to avoid the double penalty. This goes back to the fact that this is a one size fits all solution to a complex problem.

Additionally, I am against the inclusion of Other Comprehensive Income in the calculation of minimum capital ratios. I oppose this for several reasons:

- 1) This income (primarily unrealized gains/ losses on investments) is COMPLETELY beyond the control of bank management. It is strictly a measure of future interest rate expectations! Most community banks purchase investments to hold to maturity, even if they designate them as available for sale for flexibility. To count both unrealized gains or losses against capital make little sense, as these gains or losses are only tangible when they are realized.

- 2) This will cause DRAMATIC swings in capital as interest rates move up or down. The longer the duration of the bank's investment portfolio, the more dramatic the swing. This will cause capital in well-run banks to simply VANISH as rates move upward. The investment portfolio is only one piece of the balance sheet. Our bank has a relatively short duration loan portfolio, which allows us to take a longer duration in our investment portfolio. We will have to completely re-evaluate our investment strategy if these new rules take effect.
- 3) Inclusion of OCI in capital calculations will CRIPPLE the municipal bond market. To minimize volatility, banks will be forced to keep investment portfolios very short in duration. This will cause the demand for long-term municipal bonds to dry up. Cities and towns will only be able to borrow at short term rates, which will substantially hamper their ability to finance their long term capital needs on anything but a short term basis.
- 4) The current wording ignores the tax effect of these gains or losses. For these gains or losses to truly impact capital, they will have to be realized. A gain will have a tax liability attached, a loss will have a tax asset attached. Not accounting for the tax effect exaggerates the true gain or loss when calculating capital.

I am also opposed to the 2.5% Capital Conservation Buffer for the following reason:

- 1) This arbitrary buffer ignores the risk profile of each bank's balance sheet. During the recent economic crisis, banks in stable real estate markets did not suffer the losses that bank's in "high growth" real estate markets did. Yet this buffer, and its limits on dividends and compensation, would apply to all banks regardless of their location or loan portfolio composition. This one size fits all type of regulation is driving smaller banks out of the market.

I oppose the provisions about the Allowance for Loan and Lease Losses (ALLL) for the following reasons:

- 1) The ALLL should not be capped at 1.25% of assets for inclusion in total capital. This penalizes banks who prudently put more money in their ALLL.
- 2) In reality, the ALLL should be considered as Tier 1 Capital. That is the true first line of defense against losses for community banks. We do not have losses in hedging activities, etc. Our losses come primarily from loans, and the ALLL is one true measure of a bank's capital position.

BASEL III was intended as a way to develop a common measure of evaluating large international institutions, but has somehow found its way into how the FDIC looks at Peoples Bank in Mendenhall, Mississippi! The community banks that survived (and even thrived) during the recent economic downturn should not be punished for the mismanagement of CitiBank and Bank of America. We did not require TARP help, and should not be held to the same standards as banks that did require government assistance to survive. We did not take inordinate amounts of risk, and should not be held to the same capital requirements and risk measures as bank that did. I urge you to continue the current risk weighting standards for small community banks. If some revisions are necessary, I urge you to remove the most onerous ones mentioned above from consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Neddie Joye Tolleson", followed by a horizontal line.

Neddie Joye Tolleson