First Bank / P.O. Box 808 / McComb, Mississippi 39648 / (601) 684-2231

First Bank

JAMES W. COVINGTON
President

October 17, 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.

First Bank is a community bank located in southwest Mississippi. We should be allowed to use the existing Basel I guidelines to measure our Capital requirements. Basel III is designed for large, money center institutions and international banks. Implementing a one size fits all method will result in unintended consequences and will literally destroy the Community banking system as we know it. Community banks were not part of the financial crises, did not take Tarp funding and have always maintained strong capital standards.

Community banks are relationship minded banks that are an integral part of their communities. The already increased regulatory burdens are having the same unintended consequences to our respective communities.

Inclusion of the accumulated other compressive income (AOCI) for most community banks will result in increased volatility in our capital requirements. The dominant component of AOCI will be unrealized gains and losses in our securities portfolio which rise and fall with interest rates.

We cannot plug in to capital markets for capital caused by increased interest rates. Community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

In regard to Risk Weights, these too will create many unintended results for community banks. The complexity of the mortgagee risk weights based on loan-to-value ratios will create a regulatory burden for community banks. Penalizing high LTVV loans with credit-enhancements will curb future lending. Second mortgage liens should not carry 150 or 200 risk weights if we want an economic recovery. Raising risk weights on residential loans generally will impair home financing by raising borrowing rates and limiting borrower access to financing.
Raising risk weights for balloon mortgages penalizes community bank s that attempt to mitigate interest rate risk. Higher risk weights for nonperforming loans duplicate the purpose of allowance for loan losses and are pro-cyclical.

To summarize, the implementation of the Basel III will have a huge negative impact on the function of a community bank which will have a huge negative effect on the housing sector and thus a very negative effect on the overall economy.

Thank-you for the opportunity to comment on this matter.

Sincerely,

James W Covington