FIRST
Commercial Bank

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.

Our bank's philosophy has always been one of serving our customers while maintaining a strong capital base. While we believe that the industry will benefit from stronger capital levels, the imposition of rigid, arbitrary and impossibly high capital regulations to community banks will negatively impact not only our ability to serve the credit needs our customers, but will hurt consumers and small businesses served by community banks throughout the United States.

Community banks should be allowed to continue to operate using the current Basel I capital requirements. Basel III was designed to apply to the largest, internationally active banks. Community banks did not engage in the highly leveraged activities that created the recent panic in the financial markets. Our bank prospers because of a relationship-based business model. Community bankers use a common sense approach to managing risk. The largest banks operate on a transaction volume based business model and pay little attention to the customer relationship.

The inclusion of accumulated other comprehensive income ("AOCI") in the capital calculations may result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain interest rate scenarios. ACOI in our bank represents unrealized gains and losses on investment securities available-for-sale. Due to the historic lows in both short-term and long-term interest rates, we like most community banks have unprecedented unrealized gains in our investment portfolio.

Once the economic recovery accelerates, it is extremely likely that interest rates will rise and the AOCI will fall and possibly become negative. The decline in AOCI will have a direct, and immediate impact on common equity, tier 1, and total capital as these unrealized paper losses will reduce capital balances. At our bank, should interest rates rise by 300 basis points, our investment securities portfolio would show a paper loss of approximately $1.1 million. This would mean a change in our bank's tier 1 ratio by approximately 35 basis points.

Community banks don't have the tools or expertise to mitigate the risks of capital volatility that are available to large banks. Community banks should be allowed to continue to exclude AOCI from capital measures as they are today.

Another example of how our customers will be harmed should Basel III be adopted as presented is in the area of residential mortgage lending. Our bank has granted approximately $40 million (20% of our loan portfolio) local residential mortgage loans to local borrowers that have various features (most of which are designed to minimize interest rate risk) that would arbitrarily move them to "Category 2" and be subject to risk weights of 200 percent. This arbitrary action alone, will limit access to credit for consumers and make junior liens more expensive or perhaps disappear altogether.

The proposed phase-out of the tier 1 treatment of trust preferred securities ("TRUPS") will have a negative impact upon community banks. We believe that the intent of the Collins amendment of the Dodd-Frank Act to permanently grandfather tier 1 treatment of TRUPS issued by bank holding companies between $500 million and $15 billion. Phasing out this important source of capital would be a particular burden for many privately-held banks and bank holding companies that do not have many alternatives to raise capital except through earnings retention.

Again, we appreciate the opportunity to comment regarding the Basel III proposed framework. Our initial models indicate that our bank will remain well-capitalized even with the application of Basel III's highly complex loan risk-weights and calculations. Notwithstanding this, we believe that our compliance costs which have already risen with the passage of Dodd-Frank will continue to grow and become an even greater unproductive expense for our $330 million-asset community bank.

Very Truly Yours,

FIRST COMMERCIAL BANK

Gary N. McClanahan

Gary N. McClanahan, Executive Vice President