Madison County Community Bank

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October 17, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Delivered via email: comments@FDIC.gov

Office of the Comptroller of the Currency
250 E. Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
Delivered via email: regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Delivered via email: regs.comments@federalreserve.gov

Re: Basel III Capital Proposals:

Ladies and Gentlemen:

We welcome the opportunity to provide comments on the Basel III proposals.

We understand the need to increase capital requirements for banks in our country in light of the unprecedented economic downturn we have faced since 2007. When the downturn started, we strategically focused on increasing our capital levels well above the regulatory requirements. Currently we have a Total Risk Based Capital Ratio of 17.05%, A Tier 1 Ratio of 15.80% and a Leverage Ratio of 8.25%. Our Loan Loss Reserve is 1.60% of our current loan portfolio. It is our intention to continue to build the reserves to a minimum of 2%.

We stringently stress test our capital and were doing this before it became a regulatory requirement. Currently we feel we can weather additional economic storms based on the current regulatory capital requirements. The Basel III proposals could significantly affect the adequacy of our capital without any actual changes occurring in our business model.

Our bank was formed in 1999 to address the financial needs of our county which is one of the poorest counties in Florida. Our main competition has been branches of two of the nation's largest banks which serve primarily as deposit gathering points to feed loan demand in other areas. We are the primary business bank, serving small to medium size businesses in our market as well as consumers of all economic means and conditions. Our bank has taken a major leadership role in the civic improvements to our market area and we serve both with our time and our giving to the major charitable initiatives in Madison County. Currently our total assets are $100 million. All of our officers, directors and staff live in our community. Of the 326 individual stockholders of our bank, approximately 97% live and work in Madison County. To say the least, we have a vested interest in the welfare of our customers and our community

Our continued goal is to maintain a reasonable profit level while serving the citizens of our community and helping them through these horrific economic times. We know that we must continue to build the economic base and job creation in our area. That is what we do and that is what all community banks do!

The following are the major areas in the Basel III proposal which we believe will negatively impact our bank and our ability to help our area recover:

I. Change in Accounting for Unrealized Gains and Losses on Available for Sale Securities.

With an incredibly weak loan demand in our area we are forced to place idle funds into our securities portfolio. At September 30, 2012 this portfolio totaled $32,155,000, (32% of total assets) with all being in government securities. All but $57,000 (20% risk weighted) is zero risk weighted and all are held as available for sale. From month to month, with no change in the portfolio makeup, we see extreme volatility in the Unrealized Appreciation or Depreciation. For example, as of the end of August, our independent analysis showed an unrealized appreciation of $134,000. At the end of September, the unrealized appreciation had grown to $351,000.

In the rising rate environment which is expected to come in the next few years this unrealized appreciation could quickly swing to an unrealized loss. Under Basel III this would have an immediate negative affect on Capital. If Basel III becomes the rule as proposed our reaction will probably be to sell most or all of our AFS securities and to place all future purchases in Held to Maturity. While this will eliminate the volatility of the proposal it will eliminate our ability to manage our investment portfolio and interest rate risk. This change will also have a detrimental impact on liquidity thereby significantly reducing our ability to fund loans when the economy returns to a healthier lending environment.

II. Increased Risk Weighting on Delinquent Loans.

We currently give a great deal of attention to our Provision for Loan Loss. Our examinations by the FDIC and the State of Florida, as well as our independent CPA, have not found problem loans which were not properly provided for. Currently we have reduced the number of delinquent loans on our books, but in this economy a good loan today can become a bad loan tomorrow. When a loan becomes bad, or shows bad trending we properly provide for it through the Allowance for Loan Loss. Increased Risk Weighting on delinquent loans becomes a double dip against Capital.

III. Increased Risk Weighting on Residential Mortgage Loans.

Throughout this economic downturn we have experienced only minor difficulties with residential borrowers and those difficulties are a result of reduction or loss of income not the decrease in values of the home. We have been successful to this point in working with our borrowers in keeping them in their homes while their financial conditions improve. We make residential portfolio loans for a variety of reasons that best suit our customer's financial needs and circumstances. In the vast majority of those cases the loan does not "FIT" the parameters as established by the secondary market. These loans are soundly underwritten and demonstrate the customers "Stability, Ability and Willingness to pay". The adoption of this rule will eliminate this type of financing as the risk ratings greatly influence the type of loans we will make. Our bank has never dealt in the subprime lending which placed us in this financial crisis. The end result of these restrictive rules coupled with the implementation of the "High Priced Mortgage Loan" criteria and the vast number of new rules and regulations being developed by the Consumer Financial Protection Bureau will be the end of a viable source of options for our customers and a loss of income for our bank.

IV. Requirement to hold Capital for Residential Home Loans Sold in The Secondary Market

Our bank does not currently make residential real estate loans that are originated and sold into the secondary market. We do however process loans for several mortgage lenders that do sell into the secondary market. This has worked very well for us in that it has provided our customers with long term financing at market rates and has produced fee income for our bank. The expansion into the secondary market may have been a viable opportunity for us to consider, however if this rule is adopted it will no longer be an option for us to even consider. Further, in our opinion other community banks will exit this market leaving our customers without options or will force them to do business with larger out of area lenders that do not have a vested interest in the customer or in the local community. Based on the current law suits filed by the D.O.J. and HUD against these large lenders for their mortgage lending abuses, is this really what we need to do?

V. Increase in Risk Weighting for Home Equity and Second Lien Loans

Home Equity and Second Lien Loans are important products for us and for our customers. We have utilized this program to supplement our secondary mortgage lending and give many of our customers the most economic (and sometimes only) method of financing. This proposal could well cause our bank to discontinue this program and to discontinue making any type of home equity loan. This would further close the door on needed financing for consumers.

VI. Proposed Treatment of Deferred Tax Assets

Currently our DTA's are 100% risk weighted. The proposed Basel III rules would cause us to move this risk weighting to 250% for a large portion of our DTA's and then deduct the remainder directly from our Capital. By fully risk weighting (100% not 250%) all of our DTA's we are requiring capital. By deducting from capital or over risk weighting DTA's again we are double providing for them and artificially reducing our capital and ratios.

VII. Costs to Generate Data to Accurately Measure Segments of our Loan Portfolio

At this point in time we have no real way to ascertain what these costs will be. The data required to move our loan portfolio into the new categories under Basel III is voluminous and cannot be accomplished with existing staff. Additionally, significant changes to computer systems must be made in order to properly categorize these loans. These changes will not only require clerical staff, but that staff must be closely trained and supervised by our top management team. This will, of course, diminish the time we have to help our customers solve their problems.

In summary, Basel III could significantly reduce our bank's ability to lend under a great variety of scenarios, cause us to move totally out of some types of lending and provide a capital squeeze that would severely limit our ability to make even larger, quality loans. Reduced capital will affect our ability as a small bank to furnish larger loans to our highest quality borrowers because of legal lending limits. This will limit our profitability and drive loans to the large banks that do not have an actual stake in our community.

Granted, each of the items enumerated above and the other individual aspects of Basel III, taken individually, can be dealt with by community banks. The totality of the proposal coupled with other recent changes promulgated by the Dodd-Frank Act will have a most serious and consequential impact not only on our bank but on most of the community banks in this country. The Basel III accord was never intended to be aimed at community banks, just the largest, most complex, multi-national organizations. Full implementation of the Basel III proposals will not only have a negative impact on community banks, but more importantly, on the customers we serve.

Thank you for your consideration.

Sincerely,

Howard O. Phillips

Howard O. Phillips
Executive Vice President/CFO

D. Edward Meggs, Sr.

D. Edward Meggs, Sr.
President/CEO