MISSISSIPPI BANKERS ASSOCIATION

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October 18, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov
Subject: "Basel III Docket No. 1442"

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov
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 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"

Re: Basel III Proposed Capital and Risk Weighting Rules

Ladies and Gentlemen:

Thank you for the opportunity to comment on the Basel III proposals that were recently issued for public comment by your agencies. We hope that our comments below will be received as sincerely as they are given.

The Mississippi Bankers Association ("MBA") was organized, in 1889, by thirty-one local bankers, and today our membership includes nearly every bank that operates in Mississippi. Throughout our organization's history we have always strived to uphold our constitution's mandate "to promote the general welfare and usefulness of Banks and Banking Institutions . . . in the State of Mississippi." We fear that adoption of the proposed capital and risk-weighting rules

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will diminish the ability of our nearly 100 member banks to carry out their mission to serve their customers and support local economies. Many have successfully contributed to their communities for a century or more.

Our membership includes financial institutions with over $10 billion in assets, but the vast majority of our member banks range from less than $2 billion to less than $20 million in assets. While our members have certainly seen difficult times in recent years, since the financial crisis of 2008 began, we have only seen two Mississippi banks fail, neither of which were due to mortgage assets. Yet the impact of the proposed capital rules, such as the inclusion of AOCI and deduction of DTAs and cash flow hedges, and proposed risk weighting rules, such as the establishment of Category 2 residential mortgage loans, will disproportionately impact our banks. More importantly, the proposed rules will negatively impact the small towns and communities that these banks serve.

For example, under the proposed rules implementing Basel III, all banks regardless of size are required to deduct from Tier 1 Capital all DTAs arising from net operating loss and tax credit carryforwards (net of any related valuation allowances) as well as unrealized losses on all available for sale securities. We will avoid technical analyses regarding the negative impact of these capital rules – such as the volatility and liquidity management problems inherent with the AOCI inclusion in Tier 1 Capital – as we believe our member banks have ably addressed these concerns in their own comment letters. Instead, we believe a more nuanced discussion is appropriate.

The compliance costs of implementing these rules, as well as the risk weighting rules discussed below will be disproportionately borne by our smaller community banks which lack the technical capabilities and infrastructure to successfully implement many of these rules. Faced with the overwhelming prospect of overhauling their capital management processes, many of these banks will undoubtedly have to make serious adjustments to their business models. Most assuredly, some community banks will sell or consolidate. The International Monetary Fund – no usual advocate of community banks – recently echoed this thought, warning that "[b]ig banking groups with advantages of scale may be better able to absorb the costs of the regulations; as a result, they may become even more prominent in certain markets, making these markets more concentrated." This warning paints a bleak picture as large banks opportunistically step into towns across Mississippi to acquire smaller institutions with strong earnings and balance sheets that simply cannot keep up with the increasing cost of compliance. Of even greater concern is the fate of banks and communities in markets where there are no potential suitors. Quite simply, we are worried that an unintended consequence of these new regulations will be that small towns will lose access to local banking services.

In Mississippi, no industry is more closely tied to local communities than our community banks. Our banks' signs line the fences of every baseball and football field in town, representing donations and support these businesses have given to often struggling schools and organizations. Nearly every holiday festival or civic event in every small town in Mississippi has its local bank as a title sponsor. Virtually every family, in every community, has a family member that works for, invests in, or relies on the local bank. If these banks become branches of regional or international institutions, the towns and communities will be truly harmed as jobs are reduced and community support begins to vanish. It is important that you seriously consider the potential economic consequences these regulations could have in areas that are already extremely poor.

We would like to briefly discuss the two specific proposed rules regarding the risk weighting of Category 2 mortgages and high-volatility commercial real estate ("HVCRE"). The overwhelming majority of our member banks, for safety and soundness reasons, cannot maintain long term Category 1 loans on their balance sheets. Further, many of their customers, due to factors such as the inability to obtain an appraisal due to lack of comparable sales, the credit history of the borrower, or other valid safety and soundness reasons, could not obtain such loans regardless. Instead, our banks offer customers alternative mortgage loans with features such as balloon payments or variable interest rates, but that amortize over a more traditional period in order to make them affordable to the borrower. These loans bear 10-30 year amortizations, are routinely renewed at favorable rates and costs, and have no history of default as has been found in the pools of what will be Category 1 loans sold into the secondary market. Without loans such as these, members of our communities would, in most cases, be shut out from obtaining affordable mortgage credit. The proposed rules would severely penalize these banks for assisting their customers in this regard and, as one member recently expressed to us, may force banks to discontinue offering mortgage credit to many of its customers.

Likewise, the increase in the risk weighting of HVCRE will likely prevent would-be business owners from opening a new restaurant, hardware store or retail shop in town that could employ dozens of local citizens. The proposed rule increases the risk weighting by 50% for commercial development loans unless the borrower can contribute at least 15% of the completed project's appraised value before the bank advances any funds. For the large, national retail borrower or private equity group backing a new business, this requirement is not an issue. However, for the local entrepreneur or a recent college graduate with a unique idea, this threshold requirement may be insurmountable. It should go without saying that the bank has every objective incentive to make good decisions on these substantial loans, but the subjective part of the process is equally as important.

Our bankers are willing to lend to these borrowers because they know them, in many cases since childhood. Sitting across the desk, the borrower can explain his business plan and why it will succeed. If the business struggles or a mortgage holder misses a payment, the community bank borrower knows that he can knock on the bank president's door and work with the bank to find a way that lets him make payments while protecting the bank's investment. Forcing these banks into a "one size fits all" model would hurt the banks, but it would hurt the Mississippi communities that these businesses serve even more.

Moving on to another concern, we understand that investments in pools of Trust Preferred Securities have been a significant problem for some banks due to the failure of many issuers. However, the holding companies in Mississippi that issued Trust Preferred Securities have been a stabilizing factor in the pools due to the good performance of these issuers. More importantly, the issuance of Trust Preferred Securities by these Mississippi holding companies allowed access to capital that helped sustain these holding companies during the recent crisis. The Collins Amendment correctly recognized that such securities are beneficial and can be a significant source of capital to community bank holding companies that cannot access traditional capital markets. For this reason, the exemptions set forth by the Collins Amendment should not be replaced by the proposed phase out of tier one capital treatment.

Furthermore, from our standpoint, the combined effect of the proposed changes in capital definition and risk ratings of assets as well as the addition of the capital conservation buffer will make it unnecessarily difficult for our banks to raise capital. Our banks are mostly small, family-owned institutions. They do not have access to large capital markets, but instead they rely on family, friends, and community-based shareholders to provide capital when needed. These banks are healthy, and conservatively managed. We fear that this burden will unnecessarily punish our banks for the poor decisions of larger banks in other places. We believe the regulatory process should encourage development of creative capital raising prospects and alternatives, not inhibit them as these proposed changes do.

We understand the proposed rules were not meant to harm community banks and, in fact, are intended to help prevent another crisis like the painful one that we are hopefully exiting. But these rules are in actuality punishing banks that had nothing to do with creating the mess. Our community banks have remained remarkably strong and stable through these tough times. They have continued to lend. They have continued to grow. They have continued to play by the rules they were asked to play by before the crisis began. Yet since the release of the proposed rules, we have received an outpouring of opinions from our members that all share the same conclusion: the cost of complying with these new standards will simply be too much, and will not put Mississippi banks in a stronger position. We see this as added cost with no added benefits to our members. Our bankers share the concerns voiced by a majority of U.S. Senators, the Conference of State Bank Supervisors, and the entire Congressional delegations of multiple states, including Mississippi. We add our voice to those that question the need to make capital more complicated and complex.

We ask that your agencies consider the disproportionate impact that the proposed rules are likely to have on our community banks and others around the country. In doing so, we hope that you will consider adopting the following:

- Exempting, as originally contemplated by the Collins Amendment to the Dodd-Frank Wall Street Reform Act, financial institutions of under $15 billion in assets from the proposed rules;

- Allowing all banks, or at a minimum those with $15 billion or less in assets, to grandfather in existing loans under current risk weighting guidelines;
- Eliminating or reducing the scope of the revisions to the deductions, such as AOCI, from capital;
- Eliminating or reducing the scope of the increases to the risk weighting of residential mortgages and HVCRE;
- Allowing existing trust-preferred securities to continue to be counted towards capital at the holding company level for institutions with less than $15 billion in assets as set forth in the Collins Amendment to Dodd-Frank.

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

Sincerely,

McKinley W. Deaver
President
Mississippi Bankers Association

cc: Senator Thad Cochran
Senator Roger Wicker
Congressman Alan Nunnelee
Congressman Bennie Thompson
Congressman Gregg Harper
Congressman Steven Palazzo