DELBERT HOSEMANN
Secretary of State
October 19, 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[1] 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. As proposed, the standards of Basel III are applicable to banks of all sizes. This creates a critically unfair burden for community banks relative to larger, more complex organizations for which the regulations were originally intended. Community banks are particularly important in states such as Mississippi, where there are many small towns and rural communities served only by these community banks.

Community banks with less than one billion dollars in assets compose only about ten percent (10%) of the banking industry by assets, but these same banks provide almost forty percent (40%) of the loans to small businesses. Community banks with less than ten billion dollars in assets make up about fifty-eight percent (58%) of loans to small businesses. In my state, our largest financial institution holds only thirteen billion in assets, so the percentage of loans made by community banks to small businesses is much higher.

The importance of these banks in rural communities cannot be overstated. In many instances these smaller institutions are the lifeblood of their communities and provide the only affordable source of financing to those working to create or improve the business opportunities in their communities. The proposed changes, particularly the increased capital requirements and changes to risk weighting

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

calculations, will directly impact the ability of community banks to provide these services to our citizens and our businesses in our small towns.

The same is true in the mortgage context. Community banks often provide unconventional loans as well as small loans which are unavailable from other sources. A tool used particularly well by community banks in Mississippi is the balloon loan which allows the bank to protect itself from interest rate risks. The banks are able to provide affordable financing to home buyers using the balloon which is then renewed at the end of the term or refinanced into a conventional mortgage. Many of our community banks will cease or restrict critical capital loans if this process is eliminated, and the Basel III rules will raise the risk rating of these loans to such a point that many community banks will be unable to continue in the mortgage market.

Due to these new requirements many community banks, often the only financial institutions in many rural communities, may be forced to merge to survive. This will serve only to further consolidate the industry in the mega-banks, and many smaller communities around the country will suffer as individuals find it even more difficult to obtain financing for their homes and small businesses. The Basel III guidelines were developed as a response to the financial crisis we are currently facing, a crisis community banks did not cause but managed to survive. These new regulations may have application to international mega-banks and other international financial institutions, but that is not who is providing capital to fuel Mississippi's economy.

Finally, risk weighting is accomplished everyday by Bank loan officers closest to the underlying assets. The existence of the local community bank rests upon their analysis of risk and the constant monitoring of that risk. No additional costly, confusing, complex, and standardized formula will improve on that existing "risk weighting" of a local community bank's loan portfolio, which is basically its lifeblood.

Mississippi depends on community banks to drive its economy and provide affordable housing to its citizens. Do to the unintended harm these regulations will bring to community banks and the communities they serve, an exemption to the Basel III regulations for community banks, those banks with assets of less than fifteen billion dollars, must be adopted before any implementation actions are considered.

Best regards,

Sincerely,

Delbert

Delbert Hosemann
Secretary of State

CDH,JR/pg/me

cc: Mississippi Banker's Association, Presidents of Mississippi's community banks