



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](mailto: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](mailto: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](mailto:comments@FDIC.gov)  
Subject: "Basel III FDIC RIN 3064-AD95,  
RIN 3064-AD96, and RIN 3064-D97"

Re: Basel III Capital and Risk-Weighting Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the BASEL III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

The Commercial Bank is a small community bank that currently serves three counties in East Central Mississippi. We have merely \$130 million in assets. Our bank was founded in 1914 in DeKalb, Mississippi, by approximately 25 local individuals who saw the need for a hometown bank. One of the original investors in 1914 happens to be my great-great-grandfather.

As you will quickly be able to tell, this letter was not written from a template which could have been provided by an Investment Company, a National Banking Group, or a State Banking Group. This letter is intended to present to you the current situation that we are asked to operate in and to address the rapidly changing regulatory environment that we operate in. I will briefly update you on the last four years at our bank so that you have a full understanding of our situation.

On December 31, 2007, our bank had \$160 million in total assets. The bank had experienced larger than normal growth from 2004 through 2007. During 2008 we anticipated showing a profit of approximately \$1.8 million (Sub Chapter S). However, during September 2008, the Federal Government placed Fannie Mae under conservatorship and wiped out the value of a \$1.7 million investment that we had in Fannie Mae preferred stock. At that time, the bank began making plans to raise additional capital from our current shareholder base (less than 120 shareholders) and we successfully completed the sale of \$1.7 million worth of capital during 2010 as a Sub Chapter S Corporation. On July 1, 2012 the bank opted out of Sub Chapter S status and converted back to a C Corp in order to better position the bank to raise additional capital. During 2009, 2010, 2011, and 2012 the bank dealt with problem loans as well as write downs of certain investments which were held in our investment portfolio. At no time during this period did the bank apply for TARP or any other programs that were offered by the Federal Government. Our bank felt that it was important to be self sufficient and raise its own capital and to remain independent in order to continue to serve our local community.

Our Bank, our Investment Representatives, as well as our State Banking Association have spent a lot of time reviewing these proposals and their implications on the banking industry. Many items that we have reviewed on an individual bank basis are quite troubling, confusing, and will have a negative impact on our Bank and the communities that we serve. It is not my intent to go into detail or to try to educate any of your agencies on the finer points of any of the areas within these new proposals. It is my intent to briefly educate you on the effect changes in particular areas will have on The Commercial Bank as well as many other small community banks throughout the country. These areas are addressed below.

1. **Trust Preferred Securities (TRUPS)** - Our bank has never issued TRUPS and thus we will not be losing any portion of our capital base because of this. Our bank does own TRUPS to the tune of approximately \$3.6 million. These securities have been written down by \$900,000 over the last three years due to Other Than Temporary Impairment Charges (OTTI). These securities are valued on a quarterly basis by an independent investment group using Level 3 pricing. By phasing out the capital treatment of TRUPS for various size banks over the next few years you will create a situation where the holders or investors in TRUPS are forced to take larger impairment charges over this same phase out period. While these may be unintended consequences of your proposal, based on my review of the current calculation and the early prepayment which will occur, this will also have a negative impact on their Level 3 valuation. The majority of the smaller banks that chose to issue TRUPS will now be forced to raise additional capital in order to replace the TRUPS that they previously issued. These smaller community banks do not have access to the capital markets like their larger competitors or money center banks. It would be my suggestion that this move itself will cause the consolidation of a large number of smaller financial institutions and thus negatively impact the local banking options in rural America.
2. **Residential Mortgage Loans (1 – 4 Family)** - Like most community banks, our loan portfolio shows a high concentration of residential mortgages that have balloon payments due at maturity. These loans are to local individuals who live and work in the communities that we serve and are on structured monthly payments, with amortizing

balances, and appropriate LTV ratios. The majority of these customers have no other option but to go to their local bank to obtain financing because of the greatly restricted access a rural community has to the secondary market. There are very few sales that occur within our county, thus the majority of appraisals that are submitted fail to qualify for secondary market consideration under the increased regulation that we are now under. Our bank is not an originator of sub-prime loans, we are not a Wall Street money center bank, we are strictly trying to serve the needs of our local community as we have done for the past 98 years. It is not possible for a small local institution like ours to assume the interest rate risk of a long term fixed rate mortgage over a 15 – 20 year period. The implementation of Basel III with the current residential mortgage guidelines will further restrict the availability of 1 – 4 family mortgages to all rural areas and increase the cost of the mortgage to the consumer due to the increased risk ratings they will now carry.

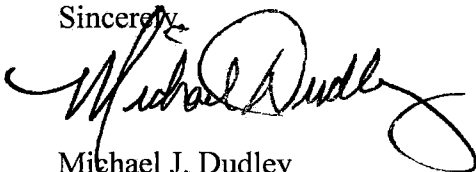
While I have chosen to only touch on 2 areas that have significant impact on my individual bank, I am aware that there are many other items that will also impact all rural banks such as ours. I am quite certain that you will be receiving many other letters and comments which will address these other areas as well as the two that I have chosen to address.

As you are aware, the recent financial crisis was for the most part not caused by community banks such as ours. We have remained strong through these difficult times as well as during the Great Depression of the 1930s. We have survived because of our commitment and willingness to serve our communities and trust in our customers. Yet, the impact of the proposed rules will be borne disproportionately by community banks which lack the resources to implement these excessively cumbersome and complicated rules.

I hope that letters such as mine will have an impact on the final decision that will be made concerning Basel III. It is quite sad that many banks such as mine have to deal with this issue and hundreds of other regulations that are being forced upon our industry. Small community banks all across America are small businesses themselves and provide the capital for job growth, infrastructure, and improvement to our local communities. It is sad that we have now progressed as an industry to this excessive regulatory environment. I can assure you that there is no business or industry in America that has more interest in the success of rural America than the small community banks that operate in these areas.

Again, I sincerely appreciate the opportunity to comment on these proposed rules. I hope that you will seriously consider my comments and the effect that these rules will have on my local community and many other similar communities across America.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Dudley". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Michael J. Dudley  
President/CEO

MJD/dbj