From: Jim Barnett <JBarnett@peoplesbk.com>
Sent: Thursday, September 13, 2012 11:19 AM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

September 13, 2012

Dear sir:

The following comments pertain to the proposed Basel III Capital proposals we understand would apply to community banks. Peoples Bank is a $185 million asset community bank chartered in 1901. We have five banking offices, four in Crawford County, Missouri and one just over the county line in Franklin County. We are located 70 miles southwest of St. Louis on Interstate 44, with historic Route 66 running through three of the communities we serve. Crawford County is one of the poorest counties in the state. According to the 2010 census, its average per capital income was $17,317 compared to the state of Missouri average of $24,724 and the national average of $27,334. Over fifteen percent of the citizens live below the poverty level.

For many years Peoples Bank has worked to help moderate income residents and small businesses through non-standard types of financing that fit their particular situation. We offer a variety of loan products with balloon loans being one of the more popular. Repayment on all loans has always been geared to the customer's cash flow and ability to repay. If someone falls on hard times we always sit down and try to see what can be done to get them back on their feet. Part of our mission statement is to "take a proactive role in the communities we serve" and members of our staff have worked through the years to obtain additional funding for our schools academic needs and bring in more and better jobs for citizens. At the same time Peoples Bank has always been a highly rated bank and has been a pillar of strength in recent years for the communities we serve as the recession has shown little sign of improvement.

As discussed below, the Basel III Capital standards, if applied to Peoples Bank, would hurt our citizens and dramatically affect how we serve our communities. Basel III was originally developed to shore up capital for large international banks and these same standards are not appropriate for the thousands of community banks that do a good job of serving their small communities

Having served the needs of Crawford County for over 110 years we know our citizens and understand that many situations don't fall into "cookie cutter solutions." Some **residential mortgage borrowers** are quite conservative and can easily handle a 50% payment to income ratio. Others might struggle at a 25% ratio. Since most of our mortgage loans are balloon loans which many of our borrows prefer, a good part of our residential mortgage portfolio would go from 50% or 75% risk-weighted to 100% to 200% weighted. The proposed rules do not recognize private mortgage insurance at all. **We would not be able to serve the future needs of many of our current borrowers under the new standards.**

For years our customers have enjoyed our Equi Check Line of Credit which is normally a second mortgage on their home. A conservative line is mutually agreed upon and a mortgage is filed on their property. Customers are given special checks which allow them to conveniently access their line when needed. A checking account is charged for interest monthly and the borrower manages principal. Under current risk-weighting, these lines would be weighted 100%. Under proposed standards risk-weighting could increase to 200% and the first mortgage would then be "tainted" and be risk-weighted up to 200%. If the second was through another lender, the rating of the first would not change. **We would probably not be able to offer this line of credit to our customers which we have successfully had in place for many years.**

To be able to risk-weight under the proposed standards our software source, Jack Henry and Associates, would have to make major software changes to allow us to code different situations. **Then our loan officers and one loan compliance person would spend hundreds of hours going through loan files and contacting both the Missouri Bankers Association and American Bankers Association for guidance. It will be a time-consuming nightmare.**

One of the requirements is unrealized gains and losses on available- for-sale securities must immediately flow through to capital. In my 38 years at the bank, we have only sold one security. Guaranteed CMO's and mortgaged backs simply pay out over four or five years, and municipals are called or paid off according to schedule. In the 110 years of Peoples Banks existence, we have never lost on a security, and we continue to use First Tennessee Bank's investment advisory services. **The value of our portfolio moves up and down as a result of movements in interest rates and has nothing to do with the credit risk in the portfolio. In a rising rate environment our portfolio could show an unrealized loss which would be a deduction to capital. Since we are a closely held Subchapter S bank, shareholders depend on a certain level of distributions quarterly so they can make their tax payments. Additional capital would have to be retained to protect against this risk, resulting in less funds to loan to customers. It could also inhibit our ability to raise capital in the future. If we were a C corporation there would be no uncertainty about our ability to make tax payments. This proposal discriminates against Sub S corporations, does not reflect risk and should be eliminated.**

Under existing rules, the risk-weighting of a loan does not change when a loan becomes delinquent. The additional risk is addressed by the proper allocation to Loan Loss Reserve. **The new standard would require nonresidential loans over 90 days past due be assigned a risk rating of 150%. Thus we would be further penalized for the past due situation and would not be able to work with borrowers as far as we have in the past.**

In summary, these proposed capital requirements are inappropriate for a community bank, would harm our moderate income customers, would probably eliminate a number of products that we currently offer, could inhibit our ability to raise capital in the future, and will create a further work load burden with all the additional requirements of Dodd-Frank. We strongly urge you to eliminate this requirement for Peoples Bank and the thousands of community banks that have been successfully serving their communities for many years!

Sincerely,

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Chairman

Peoples Bank

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