INSOUTH® BANK Member FDIC

October 17, 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:

We appreciate 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.

We feel that as a community bank, serving the customers of West Tennessee, the Basel III proposals are detrimental to our bank being able to serve our communities and customers. Our community bank depends on relationships with our customers and our communities over a long term basis, where a large bank is only interested in fitting the customer in the proper box and unconcerned unless it effects the required volume ratios in order to qualify for their sales bonus.

As for the inclusion of accumulated other comprehensive income (AOCI) in capital calculations for community banks, which would be represented primarily by unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. Additionally, demand for many implicitly and explicitly government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. This increased demand has caused credit spreads to tighten and become more volatile. Community banks should be allowed to continue to exclude AOCI from capital calculations.

Capital conservation buffers would be a burden on smaller banks as most do not access to the capital markets available to large publicly traded companies. The most logical way for community banks to increase capital is through earnings over time, but due to the low rates and shrinking interest spreads

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.*

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the ability to accumulate retained earnings is strained. Should your offices not see fit to exempt community banks from the capital buffers additional time to accumulate earnings should be allowed.

One of the cornerstones of community banking is residential real estate lending and increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Community banks will be forced to originate only 15 or 30 year mortgages or will exit the residential loan market entirely or only originate those loans that can be sold to a GSE, creating consumer outcasts of those who do not fit the prescribed profile. Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans. Furthermore, the proposed risk weight framework under Basel III is too complicated and will be an onerous regulatory burden that will penalize community banks, cost thousands in additional operational costs to track, monitor and comply with mortgage ratios and rules which are already hindering the housing recovery.

As a small holding company, we have used Trust Preferred Securities (TruPS) to raise capital. We object to the proposed phase out of the tier one treatment like TruPS. TruPS are a valuable source of capital to many privately held community banks and bank holding companies that have limited alternatives for raising capital. We urge the banking regulators to continue the current tier one treatment of TruPS issued by those bank holding companies with consolidated assets above $500 million.

As the board of a 143 year old community bank, we strive to improve our service to our customers and communities but in the current economic and regulatory environment the responsibility is becoming a greater burden. Lawmakers cannot regulate consumer fiscal accountability and behavior from a desk in Washington; it is done face to face with the customer at his or her community bank by working with their community banker. Restricting the ability for a community bank to offer competitive products to that customer, will in the long term, undermine the freedom to choose by the consumer and herd the consumer and small businesses into the conforming box (or cast out because they don't fit the box) of the "too big to fail mega banks", which caused the majority of the problems your offices are attempting mitigate with these new capital rules.

Sincerely,

Phil Clinton
Secretary to the Board of Directors

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