FIRST NATIONAL BANK OF PICAYUNE
FIRST NATIONAL BANK, POPLARVILLE
SOUTHERN NATIONAL BANK, WIGGINS

October 19, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
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

Dear Mr. Feldman:

Greetings, we would like to make a few comments on the Basel III Capital and Risk-Weighting Proposals that have been recently introduced by the regulators. Our comments express our opinion regarding the effects that the proposals will have on our bank.

Our bank, First National Bank of Picayune, serves the cities of Picayune, MS, Poplarville, MS, Wiggins, MS and surrounding communities. We have nearly $205,000,000 in assets. Our bank has grown by offering citizens of our communities affordable banking products such as residential mortgages and commercial loans. These products have allowed our citizens to start their own businesses, buy their own homes, and improve conditions in our communities. However, we fear that the proposed capital and risk weighting rules will have a significant and negative impact on our ability to provide these services.

Like most community banks, our assets include a high concentration of residential mortgages that, for valid safety and soundness reasons, do not meet the definition of Category 1 loans that large, institutional banks typically have on their balance sheets. Many of our customers do not want or do not qualify for a Category 1 mortgage due to various reasons, such as no appraisal due to lack of comparables, size of the loan, or credit history. Additionally, it is not prudent for our bank to carry long term mortgage loans. Instead we believe that our customers are better served with our shorter terms balloon loans that generally renew to fully amortize the loan.

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Under the proposed risk-weighting rules, the increase in risk weighting of these loans may triple in some cases from 50% to 150%. We currently have approximately $68,000,000 of these or similar loans on our balance sheet, which constitute nearly 33% of our total assets. If the proposed rules are adopted, we may be faced with the decision to protect capital and forego these loans entirely. We have limited access to raising significant capital and the bank will lose a significant source of income if it must forego these loans. The citizens of our communities could be forced to look elsewhere for such products. Their choices will be limited to large institutions – who likely won't be willing to extend credit to these borrowers – or other lending institutions that often only give loans with truly punitive terms and conditions.

For the same reasons, the increase in risk weighting of HVCRE will stifle much of the local commercial development that is vital to our small towns. Members of the community come to our Bank for loans that will allow them to buy the real estate to start their own restaurants, convenience stores, and other businesses. If the proposed rules are adopted, we may be forced to discontinue these loans and shut out would-be business owners.

Finally, the addition of AOCI to the capital calculation adds unnecessary volatility to capital planning. Our AOCI is currently $830,000. But with a change in the market, it could quickly turn into a negative figure. This volatility represents only a snapshot in time and does not have any significant impact on our liquidity or risk to the Bank.

Our bank is also a Subchapter S organization. The volatility inherent in including AOCI in the capital calculation, as well as the reduction in capital ratios caused by the increase in risk weights due to our mortgage loan portfolio, could very well result in our organization being in a taxable position, but unable to make distributions to our shareholders to pay the personal income tax. This will needlessly and unnecessarily diminish our already limited access to our only source of capital - our existing shareholders and members of our local communities. At a minimum, our organization should be allowed to distribute what it would have paid in taxes it if were a C Corporation.

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 because of our 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. If the proposed rules are finalized, we ask that you consider adopting the following:

- Exempting banks under $15 billion in total assets from the Basel III minimum capital and risk weighting rules, or, at a minimum, exempting such banks from the proposed rules as they pertain to residential mortgages, commercial real estate, and AOCI;

- Allow existing assets to be grandfathered in using the current risk weighting rules; or

- Revising the risk-weighting and capital rules to more accurately reflect the risks imposed by institutions such as ours and the realities of our operations.

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

Sincerely,

Crystal L. Kennedy
Senior Vice President
Cashier and C.F.O.