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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
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
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
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:

I appreciate 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.

Our bank began in Natchez, Mississippi, over 150 years ago. The bank has grown over the years and has assets over $350 million at June 30, 2012. The Bank provides commercial and consumer banking to customers in Adams and Warren counties, Mississippi, and East Baton Rouge Parish, Louisiana, and the adjoining counties and parishes in Mississippi and Louisiana. The Bank conducts its full-service banking business from its main office and two branch offices in Natchez, Adams County, Mississippi, two branches in Vicksburg, Warren County, Mississippi, and three branch offices in Baton Rouge, East Baton Rouge Parish, Louisiana, and one loan production office in Central, Louisiana. The geographical area serviced by the Bank is economically diverse and includes public and private sector industries, such as government service, manufacturing, tourism, agriculture and oil and gas exploration.

The products and services offered by the Bank include personal and commercial checking accounts, money market deposit accounts, savings accounts, ACH services, safe deposit box facilities, and brokerage services through an outside company. The Bank also offers mobile banking, access to automated teller machines and cash management services, including remote deposit, money transfer, direct deposit, and sweep accounts. The Bank is a full-service residential and commercial mortgage lender and engages in other commercial and consumer lending activities. Our mortgage division originates and sells over $40 million per year in home loans in all three company markets.

Our bank is certainly in support of a strong capital base in order to weather economic downturns and financial storms which we have experienced the past few years and in many cases continue to this day. I would be surprised to learn that anyone in the banking industry does not believe a strong capital base is not only smart, prudent business but absolutely necessary in today's uncertain and perilous times. Our bank presently has capital ratios that double the current levels of regulatory capital including tier 1 leverage capital of 11.77%; tier I risk-weighted capital of 19.81% and total risk-weighted capital of 21.07%. In addition to these strong capital levels, we have increased our allowance for loan losses to more than 2% of total loans.

Even as we are in favor of capital requirements that enhance and strengthen the capital base of the banking industry, we are opposed to many of the individual proposals in the new rules that would impose unreasonable burdens and costs on small community banks and create unnecessary volatility in capital calculations, would fail to accurately assess our level of risk, and would force changes in our business that would harm our ability to serve our customers.

While we are not commenting on all items in the proposal, I have listed a few that are our main concerns:

1. **Unrealized gains and losses on all available for sale ("AFS") securities reflected in common equity tier I.**

   In the current environment of low interest rates, many banks have an unrealized gain in their AFS investment portfolio. The impact on capital if the proposed rule was currently in place would be an increase in regulatory capital. However, interest rates will certainly rise. When this occurs, some gains will become losses, and this will dramatically reduce capital even though there has been no fundamental change in the bank.

   It has been stated that banks would have to reduce the size of their balance sheet if rates begin to rise and losses negatively affect regulatory capital. There is not enough information to determine precisely to what extent this would occur; however, it is certain that, under the proposed rule regarding treatment of AFS securities, capital ratios would be unnecessarily affected by the volatility in interest rates. Our bank has an AFS portfolio of just under $80 million, and we estimate that if the rules had been in effect at June 30, 2012 and interest rates were to have risen 300 basis points, our unrealized gain on AFS of $1.9 million would have shifted to a loss of $3.4 million, a net change of $5.3 million in regulatory capital. All capital ratios would have been negatively affected as well.

2. **Elimination of Trust Preferred Securities ("TPS").**

   We currently have $5 million in TPS that we have held for nearly 10 years. It has been our intention to hold these securities till maturity since it is a relatively low cost of capital. If this capital was eliminated, average assets would have to decline by approximately $42 million to maintain the same ratio of tier I leverage capital.

3. **Proposal to increase risk weighting for residential loans**

   This proposal requires the bank to assign risk based upon risk characteristics of each loan rather than a class of loans. Category 1 loans in which the majority of our residential loans fall, will receive the highest risk weights. However, the extensive analysis that will be required to determine the category and risk elements (such as 1^{st} and 2^{nd} liens, loan-to-value and modification reassessments along with other internal individual loan grading) will no doubt add significant burdens and possibly require complex software to make these determinations. Our residential portfolio is believed to be of low risk because of past positive performance history, including successful records of collecting these loans, relatively low loan-to-value ratios and more importantly low foreclosure rates. With these low risk elements in mind, the proposal to increase risk weightings in such a granular fashion on this segment of the portfolio will be expensive and possibly determine that more capital is needed unnecessarily.

4. **Proposal regarding home equity lines of credit ("HELOC") and second mortgages**

   Our bank has less than 10% of loans classified as HELOC. Just as cited in Item 3 above, the cost of analyzing this portfolio and determining the precise risk weight would far outweigh the threats of loss in the portfolio. It could be determined in some cases that there are loans in this category that constitute a second lien against property on which our bank holds a first mortgage. In such instances, the two loans added together might contribute to a higher risk weight due to a high LTV and might taint the first lien. This could have an adverse effect on the bank's future lending in the HELOC arena.

5. **Impact of scope and granularity of proposed rules**

   As I have stated earlier, the imposition of rules to require the collection and reporting of new and in many cases very granular data will require banks to establish new and expensive systems to satisfy due diligence requirements. Since the existing loan portfolio is not grandfathered, the analysis would not only have to be completed on new loans but also on the current portfolio. I think it is certain that smaller community banks in particular do not have the systems and manpower in place to conduct the required analysis. To comply, these banks will be faced with acquiring systems and software and possibly hiring additional personnel to complete the required analysis.

In conclusion, the proposed rules will increase the level of capital we will be required to hold and increase the risk weighting of assets. Both of these changes will occur even though there will be no change from our current business practices, and no change in the risk associated with the loan portfolio. Our bank currently maintains capital ratios in excess of ratios considered to be well capitalized and expect to continue that level of capital classification even after the implementation of this proposal. While it is difficult to determine the exact impact of the new rules, they will certainly require additional capital to support our existing business and this will impact our ability to continue serving our customers.

Even as I suspect the impact on our bank may be relatively small from a regulatory capital basis, the additional burden and expense of new systems, personnel and training will negatively impact our bank.

These are perilous times and the addition of new capital rules and additional regulatory requirements could have a severe negative impact on the community banking system. I would urge you to consider this impact and provide an exemption for all community banks. Exempting community banks from these proposed rules can only serve to strengthen our ability to continue serving our customers and play a vital role in the economy of our communities.

Thank you for your consideration in this most important matter,

Sincerely,

William M. Salters
Executive Vice President/CFO

cc: Senator Thad Cochran
Senator Roger Wicker
Congressman Alan Nunnelee
Congressman Bennie Thompson
Congressman Greg Harper
Congressman Steven Palazzo
Mr. Wayne Abernathy, American Bankers Association
Mr. McKinley W. Deaver, Mississippi Bankers Association