BANK OF YAZOO
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http://www.bankofyazoo.com

October 19, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Ladies and Gentlemen:

Re: Basel III Docket No. 1442
Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97
Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for public comment by your agencies. We specifically appreciate the opportunity to discuss our concern about the impact of these proposals – particularly the proposed minimum capital ratios, treatment of Accumulated Other Comprehensive Income ("AOCI") and risk weighting of certain assets – on our Bank and our customers.

Bank of Yazoo City was founded in 1876 and has approximately $210 million in assets with seven branches located in Mississippi towns/cities with small populations (Yazoo City-11,403; Benton-2,193; Flora-1,886; Flowood-7,823 and Pearl-25,092). Our Bank provides the citizens of our communities affordable banking products such as residential mortgages and commercial loans. These products have allowed our citizens to start and expand 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.

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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-term balloon loans that generally renew to fully amortize the loan.

Under the proposed risk-weighting rules, the increase in risk weighting of these loans may triple from 50% to 150% (and in some cases 200%). As of June 30, 2012, we had approximately $43 million of these or similar loans on our balance sheet, which constitute approximately 33% of our loans and nearly 21% of our total assets. Under the proposed rules, our Tier 1 Risk Based Capital at June 30, 2012, would drop on a pro forma basis by 221 basis points, and our Total Risk Based Capital by 245 basis points. 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 most 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 negative $535,000. A 100 basis-point increase shock reduces our capital by $256,000 or 18 basis points (decrease is 288 BP if you factor in the change in RWA), while a 300 basis-point increase shock diminishes our capital by $4,381,000 or 300 basis points (decrease is 539 BP when RWA is factored). This volatility represents only a snapshot in time and does not have any significant impact on our liquidity or risk to the Bank.

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:

- Exempt banks under $10 billion in total assets from the Basel III minimum capital and risk-weighting rules, or, at a minimum, exempt 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

- Revise 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 these comments and the effect that these rules will have on our local communities.

Sincerely,

Philip C. Williams
Chairman

cc: The Honorable William Thad Cochran
United States Senate

The Honorable Roger F. Wicker
United States Senate

The Honorable Bennie G. Thompson
United States House of Representatives