MACON BANK

October 18, 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 Proposed Rules

Ladies and Gentlemen:

I appreciate the opportunity to comment on the Basel III proposals and how these rules will affect our bank and the communities we serve.

This year our bank will celebrate its 90 year anniversary starting as a mutual savings and loan association in 1922. We converted to a stock savings bank in 1997 with 100% of the stock owned by Macon Bancorp, a North Carolina chartered mutual holding company. We currently have assets of approximately $785 million with 11 branches and 170 employees. We serve a mostly rural area of western North Carolina.

Phase-out of Trust Preferred Securities (TruPs) from Tier I Capital

The phase-out of TruPs will place a significant burden on our bank. As a mutual, we have few options to raise capital. We issued TruPs in 2003 and they have been a cost efficient and reliable source of capital. We are paying a rate of 3 month Libor + 280 with a maturity date of 2033.

I would request you revise this proposal to keep with the intent of the Collins Amendment under Dodd-Frank by permanently grandfathering TruPs for banks under $15 billion in assets.

As an alternative if a phase-out is approved, the phase-out should be based on the maturity date of the TruPs rather than the arbitrary 10 year period. In our case the TruPs would be phased-out over 23 years.

Inclusion of Unrealized Gains and Losses (Other Comprehensive Income) on Available-for-Sale Securities in Regulatory Capital

The inclusion of OCI in Tier I capital would present many problems for our bank and all community banks. First, it would be very expensive and difficult to manage. In addition, the unintended consequences will probably cause community banks to take the following actions if the OCI is included in Tier 1 Capital:

1. Securities will be moved by community banks from the Available-For-Sale (AFS) Category to the Held-to-Maturity (HTM) Category to not have the impact of changes in Interest Rates affecting Tier 1 Capital, thereby hurting liquidity.
2. Community banks will shorten the duration of the AFS Portfolio, which will negatively affect earnings.
3. Many institutions would likely take on increased credit risk in their investment portfolio in an attempt to maximize yield in a shorter duration.

I feel this proposal to include OCI in Tier 1 Capital will be devastating to community banks if implemented.

Risk Weightings

The proposed changes to risk weights under Basel III are too complicated and will be a tremendous burden on our bank and all community banks. We are already a highly regulated industry and these changes will add to the regulatory burden and threatens the viability of community banks.

Increasing the risk weights for residential balloon loans and second liens will penalize community banks who offer these loan products to customers and reduce customer options to finance their residential property. In addition, higher risk weights for balloon loans will penalize community banks for mitigating interest rate and market risk in their ALCO programs.

This will encourage community banks to originate only longer term fixed mortgages with longer durations that will make our balance sheets more sensitive to changes in long-term interest rates. We feel that many community banks will be forced to greatly reduce residential mortgage lending or only originate loans that can be sold to FHLMC or FNMA. This will have a huge negative impact on community banks and the communities they serve.

Either second liens will become more expensive for borrowers or we will discontinue this product due to the additional capital required for these types of loans. We feel strongly that community banks should be allowed to continue with the current Basel 1 risk-weight framework for residential loans.

One other factor that must be considered is the cost to community banks to comply with these new risk weightings. Updated software and increased operational cost will be required to track loan-to-value ratios to determine the proper risk weight categories for mortgages.

Having a higher risk-weight for certain commercial real estate loans will also have unintended consequences. Community banks are likely to reduce the amount of lending on this type of credit to their customers, which will have a negative impact on the growth in the communities they serve.

Having a higher risk-weight for non-performing loans only duplicates the purpose of the Allowance for Loan & Lease Losses (ALLL). Since the financial downturn beginning in 2008, bank management, auditors, and regulators have paid great attention to the adequacy of the ALLL. I feel Macon Bank and most community banks are adequately addressing the risk for non-performing loans through the ALLL, increasing the risk weighting is not needed.

Conclusion

I feel the simplest solution is to withdraw the proposals as presented. We have a very diverse banking system from the mega-bank to the small community bank that serves its local community and is locally owned and managed. Because the banking system is so diverse, it is does not seem appropriate to take a "one size fits all" approach to regulation. Any proposed regulatory changes should take into consideration the size, risk profile, and business plans of the individual bank.

If the proposals are not withdrawn, I believe that material modifications should be made to the proposal as presented. Please consider my comments as you are contemplating the adoption of Basel III.

Thank you for the opportunity to provide comments on these proposed capital rules.

Respectfully,

Roger D. Plemens

President