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# THE JEFFERSON BANK

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**Todd Turner**  
CEO/PRESIDENT

September 25, 2012

Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

I am writing to express my concerns with the Basel III standards that were recently proposed for our nation's financial institutions. We encourage you to amend the standards to better ensure that they are appropriate to each covered institution's size, scale, and complexity.

Capital is important to the strength of our nation's financial institution. The proposed standards impose a disproportionately heavy compliance burden on the nation's community banks. A capital regime as complex as the one that your organizations have proposed may not be necessary to ensure the soundness of every bank in our financial system, and actually could have significant, negative consequences for certain banks, their customers, and their communities.

We are especially concerned about these standards and potential impact on the approximately 6,800 community banks with less than \$1 billion in assets. Such banks, which represent only about 10% of industry assets, yet provide almost 40% of all small business loans, lack meaningful access to the capital markets on which larger banks rely for capital. These banks therefore face very different challenges to raising capital than their larger counterparts. Community banks also may not pose the same risks, in terms of their business model, as other, larger banks. We never trade for profit in securities so we are insulated from potential trading losses. Any new capital standards that you develop should reflect these differences among the nation's banks.

We have a major concern over the negative impact that the proposed standards could have on the availability of mortgage credit. This is a particular concern in Mississippi, where local banks can be the only source of affordable mortgage lending in a community.

Mississippi banks make many small mortgage loans that make an enormous difference in the lives of many borrowers, but under terms that would disqualify the loans for sale in the secondary market. The proposed standards would increase the risk-weighting of such loans, however, requiring banks to have additional capital. Compliance burdens have lead our banks to end, or substantially curtail mortgage financing to residents of our communities and I assure you that if Basel III is implemented, we will not make home loans in the future.

Despite the recent wave of bank failures across the nation, community banks in our state have remained virtually failure-free. Mississippi's example suggests that, at least among the nation's community banks, bank capital levels are just one facet of effective bank risk management.

For the above reasons, we are concerned that the proposed standards, if adopted in their current form, could accelerate the recent trend toward consolidation in the banking industry. It is important to nurture the survival of the nation's smaller banks, which play a vital role in small business and agricultural lending, and which often are the only entities willing to offer small loans in their local communities. Adopting a highly complex "one size fits all approach" to capital standards should be avoided if it would undermine these banks' viability or lead them to curtail lending activity in already underserved areas of the country. Adoption of Basel III would leave more people here unbanked, than banked.

I urge you to examine carefully the likely effects of the new capital standards on the continued viability of our nation's community and regional banks and amend these standards as necessary to ensure that our concerns are resolved.

Sincerely,



Todd Turner  
President/CEO of The Jefferson Bank

Cc: Honorable Thad Cochran  
Honorable Roger Wicker  
Honorable Bennie Thompson

TT/at