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September 18, 2012

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

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20219

Officer of the Comptroller of the Currency
250 E Street, SW
Mail Stop 203
Washington, DC 20219

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for 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 (bank supervisors).

Currently I serve as the Interim President and CEO of PlantersFIRST. Prior to this position, I was the CFO for 10 years. I have been in banking since 1984 as a lender and then moving to the CFO position.

We have explored the proposals and their implications within the industry. We have collected a list of comments from our client base and are incorporating these into this comment letter. We provide suggested alternatives where applicable. Below is a summary of items for which we provide comment:

1. Available for Sale Inclusion in Common Tier 1 Equity and Tier 1 Leverage Capital
2. Loan-To-Value Residential Mortgage Loans Calculation
3. Unconsolidated Financial Institution Subsidiaries

Available for Sale Inclusion in Common Tier 1 Equity and Tier 1 Leverage Capital

According to the proposal, unrealized gains and losses on all "Available-For-Sale" (AFS) securities would flow through to both Common Tier 1 Equity (CT1E) and Tier 1 Leverage capital ratios. This would include those unrealized gains and losses related to debt securities whose values fluctuate primarily with the change in benchmark rates, as opposed to changes in credit risk. This requirement will undoubtedly add a significant amount of volatility to capital ratios as these benchmark rates change with the economic conditions. Within the previous two months, we have seen the 10-year Treasury bond, a key benchmark rate, fluctuate 35 basis points. A $100 million debt securities portfolio would have fluctuated $350 thousand in value and in many cases a financial institution would have lost that value solely based on investors' preferences and economic conditions, not because of any movement in the Prime Rate of interest and not necessarily because of any Federal Reserve Bank action or inaction. In periods when benchmark rates move significantly, likewise will the fluctuation of capital move accordingly.

Strategically managing the capital position of the financial institution becomes a significant challenge should this rule be adopted. Institutions will have at lease two obvious options in controlling this management challenge. The first option to avoid the fluctuations in capital would be to declare the entire portfolio "Held-To-Maturity" (HTM). HTM securities do not require an Other Comprehensive Income component in the equity section of their balance sheets. So, the capital fluctuation issue becomes moot. However, one of the functions that a securities portfolio has for an institution is to assist with the managing of liquidity within the institution. If every security is marked HTM and none are at the point where liquidation would be possible without reclassification to AFS, it may severely cripple that required aspect of liquidity management. The second option would be to declare the entire portfolio "Trading" and actively manage the values by trading the portfolio. Most community banks I know do not have the expertise to do this effectively and it could be somewhat dangerous to expect them to do so.

A hybrid option would be to only put short-term (3 year or less) securities in AFS and classify all longer maturing securities as HTM. This, while it would appear to be a more viable option, could still cause liquidity issues and would most certainly negatively impact earnings as shorter-term securities earn much less than those with longer terms. Call options and prepayment assumptions, which could be and have been most recently unreliable, would have to be ignored and would not fit in an AFS category without posing the same price volatility capital fluctuation risk that the institution is attempting to avoid.

An additional option could be leaving the portfolio classified AFS and still actively manage the movement in value by repositioning the portfolio by taking gains/losses before they are lost or worsen. This would still have some embedded risk as would be found in the "Trading" scenario, but it would be somewhat negligent on the part of any financial manager to just let the market dictate swings in their key regulatory capital levels. So this change is forcing responsible management to manage the price volatility in their portfolio.

The inclusion of the AFS Investment/Other Comprehensive Income equity item in CT1E and Tier 1 Leverage capital is forcing an institution to make decisions on how to manage that equity line item. Any decision that is made could either cause a liquidity crisis or potentially pose the need for more sophisticated and constant management of the bank investment portfolio. Without a change by the Financial Accounting Standards Board (FASB) in Statement 115, which went in to affect late 1993, the accounting rules are clear. This Basel III rule change is unnecessarily forcing institutions to adjust their management philosophies to manage their regulatory capital like never before. In fact, the skill set may not be there to affectively manage this change. Based on these facts, please reconsider this aspect of Basel III.

<u>Loan-To-Value Residential Mortgage Loans Calculation</u>

The proposals currently differentiate between two categories of mortgage lending activity, Category 1 and Category 2 mortgage loans. Then tiers are established to differentiate each category by collateral values or "Loan-To-Value" (LTV) or the amount of the loan outstanding as a percentage of the market value of the mortgage collateral. According to the proposal, Category 1 mortgages must have terms that provide periodic payments and **NOT** allow any of the following characteristics:

1. Result in an increase of principal balance,
2. Allow the borrower to defer repayment of the principal of the residential mortgage exposure, and
3. Result in a balloon payment.

The last one of these characteristics practically classifies more than 90-95% of the mortgage portfolios in community banks as Category 2 mortgages, which require more capital than Category 1 mortgages at the same LTV levels. The first question we pose is why would a defaulted Category 1 mortgage pose less of a loss to a financial institution at 65% LTV than a Category 2 mortgage? Given that the same valuation standards are used, the losses should be similar, if not exactly the same. So why does it make sense to require more capital for the Category 2 mortgage? The categorization of mortgages simply complicates the capital calculation process and accordingly we would appreciate and prefer that this requirement be eliminated.

Likewise there appears to be a penalty for HELOC's in this new capital proposal. Apparently, there is an assumption that a HELOC is always a second lien position in the property and that the first lien plus the second lien will always exceed 90-95% LTV. To ignore LTV altogether for HELOC's and ignore that they may be a first lien position is inconsistent with the apparent intent to apply homogenous criteria to the capital calculation element applicable to the mortgage loan portfolio. Please reconsider this treatment of the HELOC product. Otherwise it may negatively impact customer liquidity demands in the marketplace or substantially increase the cost of that liquidity for the customer.

Unconsolidated Financial Institution Subsidiaries

The proposal seems to state as follows:

"If the aggregate amount of a banking organization's non-significant investments in the capital of unconsolidated financial institutions exceeds 10 percent of the sum of the banking organization's common equity tier 1 capital elements, minus certain applicable deductions and the other regulatory adjustments to common equity tier 1 capital (the 10 percent threshold for non-significant investments), the banking organization would have to deduct the amount of the non-significant investments that are above the 10 percent threshold for non-significant investments, applying the corresponding deduction approach."

As this is currently written, it would seem that investments in pooled trust preferred securitizations fall within the category of deductions. However, further clarity is need from the agency to determine with certainty. The original intent of these investments was not to represent a capital investment. Instead they were designed to represent a securitization and provide more yield spread at a time (primarily 2004-2007) when spreads had compressed.

While we appreciate your apparent desire to discourage direct investments by some financial institutions in others, we would hope that the owners of these securitized investments not be unduly punished.

Summary

We appreciate your apparent desire to revise capital regulations in an attempt to strengthen financial institutions and prevent the effect that this undesired economic tragedy has born on them. In doing so, we would like to gently nudge you and advise you what we see may become a problem in the implementation of Basel III. We applaud your efforts of phasing in the buffer concept. However, we would appreciate your willingness to consider the side effects.

Forcing community financial institutions to make decisions in an attempt to manage their the AFS component of their equity could adversely affect liquidity and/or income as community financial institutions generally do not have the skills/time to effectively manage their investments as would be required to maintain capital levels and prevent wide fluctuations. Considering LTV levels differently between different mortgage loan classifications may really not predict the true future effect to capital when one defaults if appraisal standards remain consistent. Why should an amortizing HELOC with a fully funded 85% LTV first lien be treated differently than a 30 year fixed rate mortgage? Finally, please clarify and consider the total ramifications of the proposed new unconsolidated financial institution subsidiary rule may potentially have on holders of trust preferred securities.

Again, we are grateful for the opportunity to comment on these proposals, as presented, and look forward to working with the agencies and the industry to find a workable capital solution. Should you have further questions of me, please contact me using the information below or found within this letter.

Respectfully submitted,

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