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 Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Since its founding, Macon Bank has always been a mutual institution, owned by its depositors. As a mutual institution, we are fairly limited when it comes to raising capital. We cannot simply issue common or preferred stock, either on a small scale or in a private placement offering.

Our current Tier 1 capital structure is approximately 75% from retained earnings and 25% from a Trust Preferred Security (TruPs) that we issued in 2003 to allow for growth of our institution into new markets. This instrument has served as a reliable, inexpensive source of capital, especially over the last few years when the capital markets have been largely closed to smaller community banks. We would like to ask that you reconsider this proposal, and that the capital rules match the Dodd-Frank legislation, which grandfathers any outstanding TruPs for institutions with less than $15 billion in assets. Alternatively, if the greatest concern over TruPs is that it has a maturity date, and is therefore not a permanent capital source, please consider phasing it out of Tier 1 capital to the maturity date of the TruPs, rather than an arbitrary date.

We feel strongly that Community Banks should be allowed to continue to use the current Basel 1 Framework and be exempt from this proposal.

Another significant impact on our Bank is the Inclusion of the Unrealized Gains (Losses), also known as Other Comprehensive Income, in Tier 1 Capital. The inclusion of OCI in Tier 1 Capital presents the following problems for Community Banks:

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1. Lending Limits would become erratic with changes in Interest Rates.
2. All Capital Ratios would become erratic with changes in Interest Rates.

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 in the long-term.
3. Many institutions would likely take on additional credit risk in their securities portfolio in an attempt to maximize yield for a shorter duration.

The proposed changes to risk weightings under Basel III are too complicated and will be a tremendous burden on Community Banks. While the larger, more complex institutions are able to use complex models to assess some of the data needed in the Basel III framework, most community banks do not capture much of the data that would be required. We are already the most regulated industry in the world and these changes will make us less competitive and threaten the viability of community banks across the United States.

Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to customers and deprive customers for these 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 force community banks to originate only 15-Year and 30-Year Fixed Mortgages with durations that will make our balance sheet more sensitive to changes in long-term interest rates. We feel that many community banks will exit the residential loan market or only originate loans that can be sold to FHLMC or FNMA.

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 aspect that must be considered is the cost to community banks to update our software and other operational costs to track mortgage 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. The most likely scenario is community banks will not provide this form of credit to our customers, which will have a negative impact on the growth in the communities we serve.

Please consider our comments as you are contemplating the adoption of Basel III. We feel the simplest solution is to require community banks to continue to use the Basel I rules and the largest banks (Assets greater than $10 Billion) to be required to use Basel III. Our institution, much like most community banks, has a fairly simple balance sheet. We take in deposits, which we use to make loans and buy securities to earn a spread. We feel that the existing capital framework, CRE concentration guidelines, liquidity and interest rate risk monitoring provide regulators an adequate basis with which to examine our institution completely. Trying to apply the same framework as what is being used to evaluate large, complex institutions will not result in any more effective results for any of the parties involved.

Regards,

Ronnie Beale, Director

Dr. Louis Buck, Director

Dr. Adam Burrell, Director

Jim Garner, Director

Stan Jeffress, Director

Fred Jones, Director

Beverly Mason, Director

Ed Shatley, Director