



October 18, 2012

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

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the proposed capital standards that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Renasant Bank is a 108-year old community bank headquartered in Tupelo, Mississippi which provides banking services to communities located throughout the states of Mississippi, Alabama, Georgia and Tennessee. We are a community bank serving small to medium size businesses and individuals through our over 75 offices in our markets. Renasant Bank currently has a leverage ratio of 9.51% and a total capital ratio of 14.15%. Our management and Board of Directors have always exercised prudent capital management policies and maintain capital ratios in excess of the prescribed regulatory minimums to be "well-capitalized."

We understand the Agencies reaction to the ongoing effect in the banking system and we support actions taken which will strengthen the quality of policies, practices and safeguards in the financial industry. However, several areas of the proposed capital standards cause us concern as they will unfairly penalize us, as a community bank, and the quality of services we provide to our communities.

Below is a summary of items for which we are providing comments. We respectfully ask that our comments in each of these areas be considered in the finalization of any rules:

1. Increased Risk Weighting for Residential Mortgage Loans, Second Lien Loans and Home Equity Lines of Credit ("HELOC's")
2. Inclusion of Unrealized Gains/Losses on AFS in Regulatory Capital
3. Elimination of Tier 1 Capital Treatment of Trust Preferred Securities
4. New Rules on "High Volatility Commercial Real Estate"
5. Increased Risk Weighting on Delinquent Loans
6. Deferred Tax Assets

## **I. Increased Risk Weighting for Residential Mortgage Loans, Second Lien Loans and HELOC's.**

Renasant Bank provides a significant number of residential mortgage loans to individuals living in the markets we serve. We are one of the largest community bank providers of mortgage loans in each of our markets. The proposed rules regarding changing the risk weighting on mortgage loans significantly threatens our ability to continue to provide this very important service to our communities. We routinely receive loan requests from individuals who, based on a variety of circumstances, may not want a secondary market mortgage loan. We prudently underwrite these requests ensuring compliance with all safety and soundness and fair lending regulations. Our loss experience on residential mortgage loans is historically lower than other loan types. Ironically, under the new capital proposals relative, the risk weighting of residential mortgages are higher in many cases than other loan types that, in our experience, would be considered more risky.

We also originate second lien mortgage loans, which are primarily home equity lines of credit. We have provided this service for years and as such our portfolio is "seasoned" in that the loans have experienced up and down rate and valuation cycles. Similar to our loss experience with our first lien mortgage loan portfolio, our HELOC and second lien portfolio loss experience has been lower than other loan types. Additionally, we comply with the Interagency Guidance on Allowance Estimation Practices for Junior Lien Loans and Lines of Credit issued January 2012 in that we allocate our allowance for loan losses to our HELOC and second lien loan portfolio recognizing the higher inherent risk these loans may carry. By increasing the risk weighting on these loans, the banking industry will be setting aside capital twice for these assets.

It should also be noted that the administrative burden of tracking these loans and assigning risk ratings in accordance with the proposed mortgage standards will be significantly increased. Staffing levels will be increased and core processing capabilities will have to be vastly improved. In both instances the result will be higher future expense levels.

If the new standards related to mortgage loans are approved as proposed, it will impair our ability to originate any of these types of loans and provide this needed service to our customers. Furthermore, we are concerned that if community banks can no longer provide these services to our communities, these services will be provided by entities not regulated by the Regulatory Agencies.

## **II. Inclusion of Unrealized Gains/Losses on AFS in Regulatory Capital**

A major area of concern under the proposed capital rules is the inclusion of gains and losses on available-for-sale securities in common Tier 1 equity. As a result of the historically low interest rate environment, most banks have increased their investment portfolios over this time and currently have significant gains in their investment portfolios. This is amplified by the fact that most banks have increased their investment portfolios in recent years due to large influxes of deposits and minimal prospects of loan growth. When interest rates rise, these gains will be quickly reversed. If unrealized gains and losses on available for sale securities are included in common Tier 1 equity, this will result in significant volatility in the capital structures of the banking system. Furthermore, it is easy to foresee many unintended consequences as a result of this proposal. For example, banks may be forced to reduce the size of their balance sheets or limit lending when interest rates rise. Additionally, banks may reclassify their investment securities from available for sale to held-to-maturity with the sole purpose to eliminate this volatility from capital, resulting in a limited ability to properly and prudently manage their liquidity and interest rate risk.



We, like most institutions, actively manage our interest rate risk through our Asset/Liability Committee. Part of this management includes routine evaluation of the impact of changes in interest rates on our capital structure. If projected changes in interest rates cause intolerable results, we identify plans and mitigants to ensure we maintain acceptable levels of risk by managing our entire asset/liability position. Many times these plans and mitigants include assets or liabilities which are not accounted for at fair value or whose changes in values are not included in equity. We feel the inclusion of the unrealized gain and losses on available for sale securities in the capital structure will create unnecessary volatility in capital ratios and inaccurately reflect the capital impact of market value fluctuations in financial institution that execute prudent asset/liability management.

### **III. Elimination of Tier 1 Capital Treatment of Trust Preferred Securities**

Despite the clear exemption within the Collins amendment for institutions under \$15 billion in total assets, the proposed capital standards require all institutions under \$15 billion to deduct trust preferred securities from common Tier 1 capital based on a phase out schedule provided in the proposals. For a wide range of community banks, whether publicly traded or privately-held, trust preferred securities served as an important source of affordable and accessible capital. Additionally, these same institutions have found it difficult to raise capital in the current environment. As such, we would encourage the Agencies to remain consistent with the intent of the Collins amendment and allow for grandfathering of existing trust preferred securities for institutions under \$15 billion in total assets.

### **IV. New Rules on High Volatility Commercial Real Estate ("HVCRE")**

We understand the Agencies' concern over HVCRE. Commercial real estate loans inherently carry higher risk, which in turn require better underwriting, monitoring and understanding of the relationship. However, there is a real need in our communities for these types of loans. In many of our communities, these loans help small businesses and individuals pursue their entrepreneurial endeavors. As proposed, we would be forced to significantly reduce the origination of these types of loans, thus hindering commercial and community development in our more rural, smaller towns.

Furthermore, when they are prudently underwritten, closely monitored and adequately secured, the risk of these loans can be significantly reduced. We, like most banks, adhere to the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices issued in December 2006 to ensure that we understand the risks and concentrations in our commercial real estate portfolio. Similar to our HELOC and second lien mortgage loan portfolio, we recognize these loans carry higher inherent risk. As such, we have set aside capital in the form of higher levels of allowance for loan losses against this portfolio to compensate for this risk. By increasing the risk weighting on these loans, banking institutions who follow existing prescribed regulatory guidance and prudently manage their risks will again be penalized by the requirement to allocate multiple sources of capital for these assets.

In addition to the multiplier effect on capital, the administrative burden of tracking these loans and assigning risk ratings in accordance with the proposed standards will be significantly increased. Staffing levels will be increased and core processing capabilities will have to be vastly improved. In both instances the result will be higher future expense levels.

## **V. Increased Risk Weighting on Delinquent Loans**


We again understand the Agencies' concern over past due loans and the higher risk of loss they carry. However, institutions with sound allowance for loan loss methodologies, adequate credit risk monitoring and prudent credit monitoring are setting aside reserves for loans that fall into past due status. Again, we feel the increased risk rating is unnecessary as banking institutions who follow prescribed regulating guidance and prudently manage their risks will be unfairly penalized by the requirement to allocate an additional source of capital to past due assets.

## **VI. Deferred Tax Assets**

We ask that the exclusion of deferred tax assets ("DTA's") from capital be reconsidered. Under generally accepted accounting principles, valuation allowances must be established for DTA's that are not realizable. The establishment of a valuation allowance flow through the income statement and thus are reflected in capital. We do not understand why capital needs to be adjusted by assets that are collectible and realizable in accordance with general accepted accounting principles and respectfully ask the Agencies to consider eliminating this proposal.

In summary, the implementation of the new capital standards, as proposed, will significantly and negatively alter the way we and other community banks serve our customers and communities. We support efforts to improve the stability of the banking environment and industry. However, we do not believe these new standards apply to community banks in the same manner as they apply to highly complex financial institutions. Thank you for your consideration.

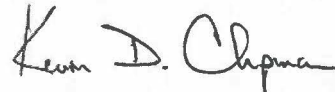
Sincerely,



E. Robinson McGraw  
Chairman, President and  
Chief Executive Officer



Stuart R. Johnson  
Executive Vice President  
Chief Financial Officer



Kevin D. Chapman  
Executive Vice President  
Chief Financial Officer