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**First Federal
Savings Bank**

FDIC

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February 4, 2014

OFFICE OF THE CHAIRMAN

The Honorable Janet Yellen
Chairman
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Thomas Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Dear Chairman Yellen, Comptroller Curry, Chairman Gruenberg, and Chair White:

I am the Chief Financial Officer for First Financial Service Corporation (NASDAQ: FFKY) and its subsidiary First Federal Savings Bank (FFSB) in Elizabethtown, KY. FFSB, a community bank with approximately \$850 million in assets, has been serving its community for over 90 years.

I am writing to express my strong support for the request made to your agencies by the Loan Syndications and Trading Association and other trade organizations (collectively, the "Organizations") in their letter dated January 10, 2014 (the "Letter").

The Letter seeks confirmation that "ownership interest" as defined in §___.10(d)(6) of the Volcker Rule adopted by your agencies on December 10, 2013 (the "Final Rule") does not include debt securities of collateralized loan obligation ("CLO") issuers that are covered funds where the CLO debt securities have a contingent right to remove a manager "for cause" or to nominate or vote on a nominated replacement upon a manager's removal for cause or resignation, but contain none of the other indicia of ownership interest listed in the definition.

Like many banks and the Organizations, we were surprised to learn that changes to the Final Rule from the proposed rule now seem to prohibit our investments in debt securities issued by CLOs. From our perspective, CLO debt securities in no way have an ownership interest in the CLO but are rather simply creditors. CLO debt securities are well structured, variable rate,

diversified credit assets that provide banks of all sizes with an opportunity for an attractive risk-adjusted return.

Over the last four years, in the wake of the financial crisis, FFSB experienced \$42.2 million in net losses mainly attributed to losses within the loan portfolio. In late 2011, FFSB's severely depleted capital combined with additional potential losses in the loan portfolio nearly resulted in FFSB joining the ranks of failed banks. In early 2012, a new Executive Management team was formed in an effort to prevent the bank from failing and to restore FFSB to a safe and sound institution. I was brought in as a part of that team as the Chief Financial Officer. Over the next two years, the Executive Management team worked diligently and took the necessary measures in an effort to avoid failing. The results of these efforts have resulted in FFSB reporting in 2013 net income, for the first time since 2008, of \$3.3 million. More importantly, we believe that the probability of failure has been erased.

While we were able to avert failure during this most recent credit crisis, we still face significant challenges. However, we now face a new threat that could have severe implications to FFSB. Ironically, unlike the credit crisis that we survived, this threat comes in the form of proposed regulations, more specifically, the Final Rules. The application of the Final Rules could result in severe erosion of our already thin tangible common equity that was so severely depleted during the credit crisis. The main difference between the credit crisis challenge and this regulatory challenge is that we have no control over the potential results.

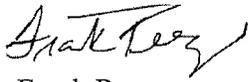
We have invested \$36.5 million in senior CLO debt securities and they constitute 14% of our carefully managed investment portfolio. We view our investment portfolio as a conservative and much less risky component of our balance sheet. The Final Rule, if applied without the clarification sought by the Organizations, could have a material negative impact to our capital base which we have been trying to preserve after the losses incurred the past four years. On a consolidated basis, tangible common equity is \$24.4 million at December 31, 2013, representing just 2.43% of total tangible assets. A 20% decline in market value of these CLOs as a result of forced liquidation would equate to a \$7.4 million charge to earnings. A loss of that magnitude would erode tangible common equity by more than 30%. As we understand the Final Rule and from discussions with our regulators, we would be required to take impairment charges, related to declines in market values directly to our earnings because it will be viewed that we will not have the ability to hold these investments until price recovery since we will be forced to divest of these CLOs by July 21, 2015. We should not be facing a threat like this related to investments that are performing perfectly well and are not impaired in any way shape or form. We should not be forced to divest and take losses on safe investments that were on our balance sheet prior to the finalization of the Final Rule.

This rule has already caused issues for FFSB as a result of our ongoing joint examination by the Federal Deposit Insurance Corporation (FDIC) and the Kentucky Department of Financial Institutions (KDFI). Based on the interpretation of examiners from the FDIC, management was initially informed that we would have to take an impairment loss of approximately \$650,000 directly to earnings. This is an unrealized loss on our available-for-sale CLO portfolio. Management challenged that position based on our interpretation and as a result, we were not forced to currently take the impairment charge against earnings. However, we were informed that this issue is still under review. It is hard to understand, as a management team that was able

to take a financial institution through the darkest days of the financial crisis, why we should be presented with another existential threat based solely on an arbitrary and expansive interpretation of the Final Rule. Our investments in safe, well-performing senior CLO debt securities do not constitute ownership interests and should not be enforced that way.

It would be tragic if our efforts over the last two years were considerably set back as a result of the Final Rule. The threat is real, the impact is real and it would not only pose a threat to FFSB, but also to our customers, employees, and shareholders and to the community that we have been proudly serving for over 90 years.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Perez", written in a cursive style.

Frank Perez

Chief Financial Officer

First Federal Savings Bank