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October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov
Subject: "Basel III Docket No. 1442"

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
comments@FDIC.gov
Subject: "Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97"

Re: Basel III Capital and Risk-Weighting Proposals

Dear Ms. Johnson and Mr. Feldman:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for public comment by your agencies. I specifically appreciate the opportunity to discuss my concern regarding the impact of these proposals—particularly the ones relating to the minimum capital ratios and the risk weighting of certain assets—on our bank and our customers.

BankFirst Financial Services has around $750,000,000 in assets and serves Macon, Columbus, Starkville, West Point, Madison, Ridgeland, Flowood and surrounding communities in Mississippi. We have grown by offering citizens of our communities affordable banking products including residential mortgages and commercial loans. These products have allowed our customers to start their own businesses, buy their own homes, and improve conditions in our communities. However, I am very concerned that the proposed capital and risk weighting rules will have a significant and negative impact on our ability to provide these services.

Like most community banks, our assets include a high concentration of residential mortgages, which do not meet the definition of the Category 1 loans that large, institutional banks typically have on their balance sheets. Many of our markets are rural in nature and some of our customers do not want or do not qualify for a Category 1 type mortgage. This is due to various reasons, most typically no appraisal because of a lack of comparable sales, the size of the loan request, or the customer's credit history. Additionally, from an interest rate risk standpoint, it is not prudent for our bank to carry long term mortgage loans. Instead we believe that our customers are better served with the shorter term balloon loans we offer that generally renew to fully amortize the loan.

The proposed risk weight rules under Basel III are too complicated and will be an onerous regulatory burden. Additionally, our bank will be forced to make software upgrades and incur other additional operational costs to track mortgage loan-to-value ratios to determine their proper risk weight categories. Under the proposed risk-weighting rules, the increase in risk weighting of these loans may triple in some cases from 50% to 150%. We currently have approximately $145,000,000 of these or similar loans on our balance sheet, which constitute nearly 20% of our total assets. Both our Tier 1 Risk Based Capital and our Total Risk Based Capital at June 30, 2012, would drop on a proforma basis by

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more than 200 basis points, under the proposed rules. If the proposed rules are adopted, the bank may be faced with deciding whether or not to protect capital and forego these loans entirely. Community banks do not have the ready access to capital that the largest banks do through the capital markets. In fact, our only reliable way to raise capital is through retained earnings, and if we are forced to forgo making some types of loans due to unreasonable regulatory induced capital constraints banks such as ours could lose a significant income stream. The citizens of our communities could be forced to look elsewhere for such products. Their choices will be limited to large institutions – who likely won't be willing to extend credit to these borrowers – or other lending institutions that often only give loans with truly punitive terms and conditions.

For the same reasons, the increase in risk weighting of HVCRE will stifle much of the local commercial development that is vital to Mississippi's small towns. Members of the community come to our bank for loans that will allow them to buy the real estate to start their own restaurants, convenience stores, and other businesses. If the proposed rules are adopted, capital constraints may force community banks to discontinue these loans and shut out would-be business owners.

Finally, the addition of AOCI to the capital calculation adds unnecessary volatility to capital planning. Our AOCI is currently $3,476,717. A 100 basis point shock reduces our capital by $2,271,852, while a 300 basis point shock diminishes our capital by $10,140,721. This volatility represents only a paper loss in a snapshot in time and does not have any significant impact on our liquidity or risk to the Bank.

As you are aware, the recent financial crisis was for the most part not caused by community banks. BankFirst has remained strong through these difficult times because of our willingness to serve our communities and trust in our customers. Yet, the impact of the proposed rules will be borne disproportionately by community banks which lack the resources to implement these excessively cumbersome and complicated rules. If the proposed rules are finalized, we ask that you consider adopting the following:

- Exempting banks under $10 billion in total assets from the Basel III minimum capital and risk weighting rules, or, at a minimum, exempting such banks from the proposed rules as they pertain to residential mortgages, commercial real estate, and AOCI;

- Revising the risk-weighting and capital rules to more accurately reflect the risks imposed by community financial institutions and the realities of their operations.

Again, I sincerely appreciate the opportunity to comment on these proposed rules. We hope that you will seriously consider these comments and the effect that these rules will have on our local communities. BankFirst will be able to adapt in ways that will enable us to survive despite these rules, but the true punitive effect will be felt by our customers who will see yet another source of loan funds curtailed just as they need it most.

Sincerely,

E. G. Flora, III
Executive Vice President