BancorpSouth

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
regs.comments@federalreserve.gov
Subject: "Basel III Docket No. 1442"

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov
Subject: "Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010"

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 NPR and Standardized Approach NPR

Ladies and Gentlemen:

Thank you for the opportunity to provide feedback on the Basel III and Standardized Approach NPRs that were recently issued for public comment by your agencies. We appreciate the opportunity to discuss our concern about the impact of these proposals on both the banking industry and consumers. BancorpSouth is a $13.2 billion state-charted bank headquartered in Tupelo, MS. We operate a community bank structure serving customers across an eight state footprint in the Southeast including Alabama, Arkansas, Florida, Louisiana, Mississippi, Missouri, Tennessee, and Texas. We fear that certain aspects of the proposed rules will have an adverse impact on both enterprise risk management within the industry as well as our ability to extend credit to the consumer. Our specific concerns are addressed as follows:

Inclusion of unrealized gains/losses as a component of Tier 1 common equity

Under the proposed rules, unrealized gains on losses on Available for Sale ("AFS") securities would be included as a component of Tier 1 capital. We do not feel that this treatment is appropriate.

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Background

Securities are classified as either trading, AFS, or Held-to-Maturity ("HTM"). The decision to classify securities is made at the time that a security is purchased. In order to record a security as HTM, the Company must have both the ability and intent to hold the security until maturity. Fundamentally, the valuation of AFS or HTM securities is identical. The difference in accounting treatment being that AFS securities are carried at Fair Value ("FV"), with the unrealized gains/losses on AFS securities recorded net of tax as a component of other comprehensive income in shareholders' equity. HTM securities are carried at historical cost, adjusted for amortization or accretion of discount or premium. Trading securities are marked to FV, and the change in FV is reflected in earnings. Unrealized gains and losses on securities can be temporary as security valuations fluctuate with changes in interest rates. If an unrealized loss on any security is determined to be other than temporary, current accounting rules require that the security be written down to FV through earnings. A company is not prohibited from selling HTM securities; but generally, if a decision is made to dispose of securities classified as HTM for reasons other than a change in the credit quality of the security, all HTM securities are reclassified as AFS. The proposed rule seems to make the assumption that because a security is classified as AFS, the holder intends to dispose of the security. If that were the case, the security would be classified as trading.

Balance Sheet Management

Securities are an important tool for balance sheet management in a financial institution. When securities are purchased, maturities are selected to correlate with the expected maturity of liabilities to meet expected liquidity needs. The designation of securities as AFS provides additional flexibility in assuring that the expected maturity of assets and liabilities can be more actively managed. The ability to dispose of securities is also important to manage liquidity risk and interest rate risk in the event that the expected maturity distribution of other earning assets changes.

Impact of Proposed Rule

The proposed rule to include unrealized gains and losses on AFS securities in Tier 1 capital could potentially encourage companies to classify an increased portion of their securities portfolios as HTM in order to avoid the possibility of volatility in capital ratios. If this is done, it could potentially limit their ability to more actively manage liquidity and interest rate risk. The proposed rule could also encourage companies with significant unrealized gain positions to reclassify the entirety of the securities portfolio to AFS in order to benefit capital ratios. This lift could prove to be temporary as debt security valuations fluctuate with interest rates. This seems to be inconsistent with the purpose of Basel III, which is to require that a greater portion of capital structure be higher quality common equity. We believe that because the components of other comprehensive income include adjustment for valuations that tend to be temporary in nature, it is not an appropriate component of Tier 1 capital. Additionally we believe that the impact of this component of the rules could be opposite of the intent, which is to create and preserve capital through retained earnings and balanced risk management.

Risk Weights of Certain Asset Classes

The NPR provides for a more granular approach in determining risk weightings of certain assets. This is an appropriate approach to ensure that appropriate capital exists for the risk profile of the balance sheet.

Structured Securities

The NPR proposes a 1,250% risk weight option for certain structured securities. Assuming the required capital ratios under the NPR, a 1,250% weight would require more capital than would be required if the total value of the securities were deducted from capital, and the balance of the assets were excluded from risk weighted assets. The proposal has the effect of more than writing off the entire investment through capital. It seems unlikely that these investments could produce a greater loss than the recorded investment.

Residential Mortgage Loans

1-4 family residential mortgage exposures are categorized into two categories (Category 1 and Category 2) based on the structure of the credit and then sub-categorized based on loan to value (LTV) ratios. While we do not disagree that underwriting standards affect the relative credit risk of loans, particularly LTV, we believe that certain criteria for qualifying as Category 1 are inconsistent with the underlying risk.

We do not believe that the balloon feature of a mortgage increases the credit risk associated with a loan. When a loan matures, it offers the lender the opportunity to review the collateral value, financial condition of the borrower, market interest rates, and other important underwriting criteria of the loan and determine that the loan meets the standards for renewal. This provides a distinct advantage in providing the lender with information beyond the payment history of the borrower for purposes of determining the appropriateness of the decision to keep the loan on the books. This actually provides an opportunity for early identification of potential problem credits by encouraging the maintenance of updated financial information and collateral valuation. In the event that there is deterioration in LTV since the original underwriting of the loan; even when a decision to renew is made, it would provide information to place the loan in a risk weighting category appropriate to the LTV.

With respect to 30 year amortization loans we believe that the risk weightings based on LTV contained in the NPR are appropriate for the risk profile of those loans, and balloon mortgages should have the same weightings based on those LTVs.

With respect to stand-alone junior liens with an LTV > 90%, we believe that the risk characteristics are essentially the same as uncollateralized loans and should be risk weighted as an unsecured loan. The advantage of taking a junior position for the lender is that the collateral could provide some measure of protection, especially in the event of bankruptcy of the borrower. For the borrower, having a loan secured by a residence offers favorable tax treatment for the deductibility of the interest.

Additionally, raising the capital requirements on credits of this nature will inhibit banks' ability to make these types of loans to the consumer and will also impact the pricing of the loans that are made. BancorpSouth currently has over 16,000 residual mortgage loans totaling $1.5 billion on the books that have a balloon feature. Under the proposed guidelines, our ability to renew these loans as well as our ability to extend new credit of this nature will be inhibited. Increased capital requirements will require financial institutions to charge higher interest rates to cover the incremental cost of capital, resulting in a direct adverse impact on the consumer.

We also urge the Agencies to re-propose the Standardized Approach NPR that would not only grandfather legacy mortgage exposures but clarify that any new capital rules on credit enhancement representations and warranties not apply to mortgages sold to third parties (that are temporarily subject to representations and warranties on early payment defaults, misrepresentation, etc.).

Past Due and Non-accrual Risk Weights

Under the proposed rules, assets greater than 90 days past due or on non-accrual status would be risk weighted at 150%. The general idea that past due or non-accrual loans carry a higher degree of risk than performing loans has merit. However, the NPR does not consider specific reserves held against impaired loans, or charge-downs taken on non-performing loans. Impaired loans represent a significant portion of non-accrual loans in most institutions.

Non-accrual loans that are determined to be collaterally dependent are assessed for impairment by comparing the outstanding balance to the underlying value of the collateral. In other cases, an unsecured loan may be impaired by calculating the net present value of future cash flows in order to determine if collectability of the loan is probable. In either case, the loan is either charged down, or a specific reserve is established to carry the loan at the collateral value or the net present value of the future cash flows. This is a requirement under Accounting Principles Generally Accepted in the United States, ("U.S. GAAP").

With this practice, any potential loss exposure is recorded in a specific reserve as a component of the Allowance for Loan and Lease Losses ("ALLL"), or is charged off. Applying a higher risk weighting of the residual balance should be unnecessary, since a specifically identified potential loss exposure is already recorded.

Effective Date

We strongly encourage the agencies to defer the effective date of Basel III NPR. In that Dodd-Frank introduces an abundance of provisions that severely limit or regulate activities that are otherwise perceived to be risky, financial institutions such as BancorpSouth arc in full mode of endeavoring to comply with Dodd-Frank and now are faced with the Agencies seeking to impose standardized approaches in addition to and contemporaneously with the Dodd-Frank regulatory burden. Thus, in terms of implementation, we are concerned that the proposal would require us to meet new minimum capital ratios as early as calendar year 2013. We believe fundamental fairness suggests that institutions be given more lead time to bring themselves into compliance, both operationally and substantively, with the proposed new rules. Many of the potential negative impacts could be abated if a substantial extension and/or transition period be put in place.

Again, we sincerely appreciate the opportunity to comment on these proposed rules. We hope that you will seriously consider our comments and the impact that these rules will have on our industry and our local communities.

With best regards,

Aubrey B. Patterson
Chairman of the Board and
Chief Executive Officer

James V. Kelley
President and Chief Operating Officer

William L. Prater
Executive Vice President and
Chief Financial Officer