MORRIS BANK

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September 19, 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, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman
Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentleman:

Thank you for the opportunity to provide comments on the Basel III proposals recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

Morris Bank is a $350 million community bank headquartered in Dublin, GA with branch offices in Gordon, GA and Gray, GA. We are a well capitalized commercial bank offering traditional deposit and loan services to our community. We originate commercial loans (including SBA loans) as well as 1-4 family residential mortgage products and as of 6-30-12 we had approximately 15% of our total loan portfolio in 1-4 family mortgage products.

Our specific comments regarding the Basel III Capital proposals are listed below along with details regarding our rational for each proposed rule change.

Proposed Rule: Accumulated Comprehensive Income (AOCI) as a component of Tier 1 Capital – The agencies are proposing that AOCI, which includes unrealized gains and losses on AFS securities, would flow thru to common equity Tier 1 capital.

Morris Bank has serious concerns about the inclusion of AOCI as a component of Tier 1 capital. Inclusion of AOCI in the tangible capital ratio will create substantial volatility in our regulatory capital ratios, particularly in an up 300 basis point scenario. Today we have approximately $1.3 million of AOCI in our equity account however in an up 300 basis point scenario this moves to ($3.5) million or a change of $4.8 million downward. This is due to the ultra low rate environment we are in, despite the fact that our securities portfolio has an average life of 4.4 years.

While our bank could place our securities into the HTM portfolio (currently we are 100% in AFS), this would insulate us from the impact of the Basel III AOCI proposed inclusion regulatory capital, and it would severely limit management's ability to adjust our portfolio for ALCO, liquidity and funds management purposes. The securities portfolio of a community bank is the most flexible tool available to management to reduce asset sensitivity and interest rate risk and this proposal significantly impacts this flexibility.

Finally we believe that applying mark to market treatment of the securities portfolio while other balance sheet components do not receive similar treatment is inconsistent from a pure accounting perspective.

Morris Bank Recommendation – Morris Bank recommends that the agencies exclude any and all AOCI arising from gains or losses in the AFS security from the regulatory Tier 1 capital calculation and instead continue to capture this information in section RC-B of the call report.

Proposed Rule – Residential Mortgage Exposures – The Agencies have proposed a more stratified range of risk weightings for residential mortgages. Specifically these loans would be split into two categories based on underwriting criteria and lien position and then further stratified based on loan to value.

Morris Bank understands that deficiencies in loan underwriting as well as various high risk mortgage products were a contributing factor in the high level of loan defaults and foreclosures during the recent cycle. Our specific concern is the rule requiring that all 1-4 family loans be fully amortizing and have no "balloon payment" in order to qualify for the preferential treatment from a regulatory capital perspective. Most of Morris Bank's 1-4 family loans are set up as amortizing loans but typically have a balloon payment in three years from origination date. This is done by design so that the bank does not have a concentration of 20-30 year loans that could significantly affect interest rate risk and PVE due to changes in market interest rates. In addition there appears to be a carve out in the proposed rule that would allow the primary federal regulator to make independent determinations regarding loans that may not qualify as Category 1 (preferred category) even though the loan meets the stated criteria for that loan category. It is unclear by the proposed rule how that basis will be determined and the opportunity exists for different regulators to express different and thus inconsistent opinions regarding how these loans are categorized.

The three year loss history for Morris Bank's 1-4 portfolio is as follows (as of 6-30-12): Revolving open end 1-4 lines of credit: 0.00%. Closed end 1-4 first lien: 0.82%. Closed end 1-4 junior liens: 1.05%. While we acknowledge there have been losses in this portion of the portfolio we believe that our historical loss percentages points to prudent underwriting before and during the recent financial crisis and thus does not point to there being higher risk or higher loss percentages simply because a loan has a balloon payment.

Morris Bank Recommendation – Morris Bank believes the criteria for Category 1 loans needs to be more clearly defined such that products that are solidly underwritten are not penalized unfairly. Furthermore we believe that loans should not be excluded simply because there is a balloon payment feature in the loan. We believe a more reasonable approach would be to only exclude non amortizing loans from the Category 1 classification.

Proposed Rule – Minimum Capital Ratios, Capital Conservation Buffer, and Prompt Correction Action Requirements - The Agencies have proposed a new common equity Tier 1 capital ratio and have further modified the capital components and ratios for the existing risk-based and leverage capital components. In addition the Agencies have proposed limits on capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified "Capital Conservation Buffer" in addition to the already established minimum risk-based capital requirements.

It is unclear why the Agencies would propose a capital conservation buffer that would exceed the minimum thresholds for "well-capitalized" under the PCA framework. Under this proposed scenario a bank could be well-capitalized is unclear why the Agencies would propose a capital conservation buffer that would exceed the minimum thresholds for "well-capitalized" under the PCA framework. Under this proposed scenario a bank could be well-capitalized and thus not subject to PCA restrictions (like limitations on brokered deposits), but would still be subject to limitations on capital distributions and discretionary bonuses if it did not meet the requirements for the capital conservation buffer.

Morris Bank Recommendation – Morris Bank recommends that the proposed capital conservation buffer be adjusted to 2.0%. This would align with the current PCA requirements that distinguish between "adequately capitalized "and "well-capitalized".

In summary, our greatest concern is the AOCI provision of the proposed Basel III rules that will result in substantial volatility and inconsistency in reported bank capital ratios and would significantly handicap management's flexibility with respect to management of the banks liquidity and securities portfolio management. We also believe that amortizing 1-4 family loans with balloon payments should not be excluded from Category 1 simply because a balloon payment exists. Finally we feel the proposed capital conservation buffer could be reworked and incorporated into the existing PCA framework.

We appreciate the opportunity to comment on this proposal. If you have any questions or would like additional information please contact the undersigned at 478-274-2865.

Sincerely,

Chris M. Bond
CFO

Cc: Joe Brannen, Georgia Bankers Association