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September 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
Basel III Docket -1442

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Basel III Docket ID OCC-2012-0008,009,0010

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

Re: Basel III Capital Proposals

Ladies and Gentlemen,

Thank you for the opportunity to provide comment on the Basel III Notice of Proposed Rulemaking that was recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. We hope the bank regulatory agencies will strongly consider our concerns as well as those of other community banks offered in response to the proposed Basel III capital regulations.

Metropolitan was formed in 2008 by a management team with extensive experience in executive management at regional banks. The bank is well capitalized, profitable and has excellent credit quality. We operate as a community bank, focusing on middle-market businesses, their owners and other professionals. We currently operate seven offices in the Jackson, Ms., Memphis and Nashville, Tn. markets.

We believe the ultimate consequence of Basel III, whether intended or unintended, will be consolidation of the industry and the accelerated elimination of smaller banks that can no longer compete due to the capital constraints that will be imposed by the proposed regulations. Smaller financial institutions are critical to the continued recovery of the country from the Great Recession and we believe the proposed capital regulations will make it much more difficult for these small institutions to thrive and recover, let alone compete against the larger financial institutions with much greater resources. In addition, there are much broader implications to be considered, i.e. the role of community banks not only as important providers of financial services, but also as employers, tax payers and voters.

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Increased Regulatory Capital Requirements

We understand the desire to strengthen the quality of capital. However, what must also be considered is the effective increase in the cost of capital. The combination of increased capital volatility and potential dividend restrictions associated with the capital conservation buffer will most certainly raise investors' views of risk and therefore, expected returns. Yet the higher required capital ratios and stringent risk allocations to certain assets can only reduce returns. Capital raising for all but the strongest financial institutions remains a significant challenge, and we would encourage the bank regulatory agencies to consider investors' risk appetites in connection with the proposed rulemaking as the banking industry must continue to attract investors to financial institutions and not put up additional barriers to entry.

Unrealized Gains and Losses

The inclusion of unrealized gains and losses on AFS securities coupled with the exclusion of gains and losses on cash flow hedges associated with liabilities effectively multiplies volatility, and prevents banks from protecting capital from interest-related losses in the bond portfolio. In an unstable rate environment, huge volatility swings could occur, creating a whipsaw effect on capital that negatively impacts investor confidence. As noted above, this proposal sends investors the wrong message at the wrong time.

Proposed Deduction of Mortgage Servicing Assets and Residential Mortgage Requirements

The proposed deduction of mortgage servicing rights from capital, and significantly increasing capital requirements for both residential mortgages with higher LTV's and mortgages sold with credit enhancing representations and warranties is a dramatic change that may have unintended consequences. The continued, slow recovery of the housing market is dependent on banks extending credit for residential mortgages and the proposed regulations may have the exact opposite effect. Many banks may either exit this line of business, thus reducing competition, or will price loans at a premium to recognize the increased cost of capital. This can only punish an already struggling residential real estate market and delay its recovery.

This is not to mention the requirement to follow over a dozen adjustments to and deductions from capital. Some of the required information isn't even currently tracked by most core software, requiring labor intensive, manual calculation. These proposed regulations will cause financial institutions to make significant capital expenditures to upgrade their information technology systems and hire additional resources. These proposed regulations on top of Dodd Frank and provisions of the Consumer Financial Protection Bureau are overwhelming for many banks.

We respectfully request your consideration of our concerns above.

Gregory B. Barron, CFO
Metropolitan Bank