NEWTON COUNTY BANK

P.O. BOX 120
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NEWTON, MS 39345

October 11, 2012

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
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
Subject: "Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97"

Ladies and Gentlemen:

We are writing to express our concerns with the proposed Basel III standards that were released for comment in June. We are particularly concerned with the implementation of these regulations on the small community banks in Mississippi and the effect that this would have on our local community. We encourage you to amend these standards to ensure that they are appropriate for size and complexity of community banks.

While we do recognize the importance of capital requirements to ensure the safety and soundness of our financial institution, we feel that community banks should be allowed to continue using the current Basel I framework for capital requirements computation. Basel III was designed to apply to large, internationally active banks, not for small community banks. Community banks operate in a relationship based business in order to serve the customers in their communities. This business model has provided stability and strength to community banks and local economies all over the United States.

We are specifically concerned with the inclusion of unrealized gains and losses on AFS securities and the increase in the volatility of capital balances that this will cause. The effect of this inclusion on our capital ratios could have a large impact under certain economic conditions. The consequences of this would cause community banks to reduce their AFS portfolio and move toward HTM securities. This would hinder banks liquidity position by limiting the amount of marketable liquid assets that a bank can hold. Recently interest rates have fallen to historic lows causing large unrealized gains for most securities. As interest rates rise, fair value will fall causing a direct impact on the banks capital ratios. At our bank for instance if interest rates increase by 300 basis points, my bank's portfolio would show a paper loss of $1.1 million. This would mean that my bank's tier one ratio would drop by 2%. We feel that community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

We are also concerned with the proposed risk weight framework under Basel III. Increasing the risk weighting for residential balloon loans will force banks to decrease the amount of these type loans in their portfolio. In the case of our bank, these type loans make up approximately 25% of our loan portfolio. This will not only affect the interest income and fees that the bank earns on these loans, but it will also deprive the customers of many financing options for residential property. In Mississippi, for many people, community banks are the only source of affordable mortgage lending. The inability of local Mississippi banks to make these loans will have a huge impact on our small communities. We feel that community banks should be allowed to stay with the current Basel I risk framework for residential loans.

We also ask that the capital conservation buffers be suspended during those periods where the bank generates taxable income for the shareholder. Imposing distribution prohibitions on community banks with Subchapter S corporate structure conflicts with the requirement that shareholders pay income taxes on earned income. Those banks with Subchapter S Capital structure would need to be exempt from the capital conservation buffers to ensure that their shareholders do not violate the provisions of the Internal Revenue Code.

We appreciate the opportunity to provide comment on the Basel III proposals. We hope that after examination of the impact of these standards on small community banks and the customers they serve these standards will be amended to ensure that our concerns are resolved.

Sincerely,

William L. Freeman, Jr.

William L. Freeman, Jr., CEO