Franklin Federal
SAVINGS BANK

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October 9, 2012

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Docket ID OCC-2012-008, -0009 &-0010

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket No. 1442

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@FDIC.gov
RIN 3064-AD95, -AD96 & -AD97

RE: Basel III Regulatory Capital Ratios Proposal
and Risk-Weighted Assets Proposal

Gentlemen:

On behalf of Franklin Federal Savings Bank, I thank you for the opportunity to comment on the subject proposed regulatory capital rules. Philosophically, we believe in maintaining conservative capital levels to protect against unexpected and unanticipated economic and financial events. Our consolidated company, including the assets of our mutual holding company, had 15% tangible capital entering the 2008 financial/economic crisis. We suffered extensive losses from private label mortgage-backed securities and CMOs that were rated AA and AAA when purchased. Our strong capital position allowed us to weather this difficult period, and a subsequent mutual-to-stock conversion has created substantial excess capital for our Bank. At June 30, 2012, Franklin Federal Savings Bank's tier one capital and tangible capital were 17.15% of adjusted tangible assets, our tier one risk-based capital was 25.85% of risk-weighted assets and our total risk-based capital was 27.11% of risk-weighted assets.

We have always operated as a traditional thrift, focusing almost exclusively on secured real estate lending. For the first 65-70 years of our existence since being chartered in 1933, our real estate lending was predominately single-family, owner-occupied residential mortgage loans. The low interest rate environment over the last 10-15 years; and low-rate, subsidized lending from Fannie Mae, Freddie Mac, FHA, VA and HUD have forced us to transition almost exclusively to commercial real estate lending. Although we are well capitalized as shown above, our lending has at times been of concern to regulators because of their 100% / 300% guideline limitations on commercial real estate lending. We believe these limits are unwarranted because we have limited risk from other asset classes. (For example, at June 30, 2012, we had in excess of 200% of tier two capital in the zero or 20% risk-weighting categories.) Accordingly, we suggest that regulatory concerns regarding concentrations of commercial real estate lending be integrated into the regulatory capital rules. Graduated tables that apply increasing risk-weights to concentrations above the 100% / 300% guidelines would allow financial institutions that focus almost exclusively on commercial real estate lending to have the related risks regulated and controlled within the risk-based capital framework rather than having to adhere to a separate set of capital constraints outside of the risk-based capital framework. The tables attached to this letter set forth one possible example as to how CRE concentrations might be integrated into the regulatory capital rules.

Although we recommend the above "complex" modification to the regulatory capital rules, we believe that the proposed Basel III regulatory capital rules impose an unnecessary and unwarranted burden on community banks. They represent one more brick in the boat that will ultimately lead to the demise of many community banks. We, as an industry, are overwhelmed by government regulation, government price fixing, subsidized government competition and examination to the point of micro management. We realize the past four to five years have been as challenging and stressful for our regulators as they have been for bankers, but it is incumbent upon regulators, legislators, accounting rule-making bodies and others that set the laws, rules, regulations and guidelines that affect private enterprise to tailor requirements to recognize and reflect the sophistication and complexity of the subject entities.

Under the proposed Basel III regulatory capital rules, we will be required to collect and report a large quantity of very granular information in order to calculate risk-weighted assets. This includes new information about underwriting features and loan-to-value ratios of credit exposures, as well as sufficient information to satisfy due diligence requirements. Existing loans are not grandfathered, and this information will need to be collected on our existing loan portfolios. While additional capital may be appropriate for some institutions or products, the requirements for traditional community banks should be simple, straightforward and easy to comprehend and evaluate. Healthy banks, such as Franklin Federal, operate on tight budgets, with low margins. We do not have excess resources to devote to nonrevenue generating functions that do not efficiently add significant value, such as onerous data collection and analysis solely for compliance with unnecessarily complicated regulations. In light of the enormously high volume of recently adopted or proposed banking laws and regulations, Franklin Federal requests that the bank regulatory agencies seriously consider regulatory and compliance efficiency as you draft each new regulation.

Thank you for your consideration of our comments. I would welcome the opportunity to respond to any questions you may have.

Sincerely,

FRANKLIN FEDERAL SAVINGS BANK

Richard T. Wheeler, Jr.

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Table 1

Proposed Regulation of

Commercial Real Estate (CRE) Lending Concentrations

Within the Risk-Based Capital Framework

Construction, Land and Land Development Concentrations (1)	Risk Weighting (2)
Less than 100%	Per Proposed Regulatory Capital Rules (100%)
100% - 125%	Additional 150%
125% - 150%	Additional 400%
150% - 175%	Additional 650%
175% - 200%	Additional 900%
Over 200%	Additional 1150%

(1) 300% minus the exact percentage of "Construction, Land and Land Development" Concentration used in this Table 1 will represent the "Base %" used in Table 2.

(2) This table assumes a minimum Total Capital to Risk-Weighted Assets Ratio of 8% and would be adjusted proportionally for higher phased in requirements.

Table 2

Proposed Regulation of
Commercial Real Estate (CRE) Lending Concentrations
Within the Risk-Based Capital Framework

CRE Concentrations other than Construction, Land and Land Development (CLLD) (1)	Risk Weighting (2)
Base % and lower	Per Proposed Regulatory Capital Rules (100%)
Base % to Base % plus 75%	Additional 150%
Base % + 75% to Base % + 150%	Additional 400%
Base % + 150% to Base % + 225%	Additional 650%
Base % + 225% to Base % + 300%	Additional 900%
Base % + 300% and higher	Additional 1150%

(1) The "Base %" used in Table 2 equals 300% minus the CLLD component percentage from Table 1.

(2) This table assumes a minimum Total Capital to Risk-Weighted Assets Ratio of 8% and would be adjusted proportionally for higher phased in requirements.