MISSCO Contract Sales

Victor L. Smith
PRESIDENT

October 18, 2012

The Honorable Tom Curry
Comptroller
Office of the Comptroller for the Currency
250 E. Street, S.W.
Washington, D.C. 20219

The Honorable Ben Bernanke
Chairman
The Federal Reserve System
20th Street & Constitution Avenue NW
Washington, D.C. 20429

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Gentlemen,

The purpose of this letter is to express great concerns that I have in regard to the proposed Basel III standards.

For a number of years, I have served as a Director on the Board of Copiah Bank, N.A., which is based in Hazlehurst, Ms. We are a $160 million bank located in the central part of Mississippi, serving customers in seven towns in three counties. Our bank was founded in 1891, and has a long history of serving its customers well.

I believe that my fellow Directors and I heartily agree that if adopted as currently proposed, Basel III will severely limit our ability to continue as a force for our customers and their communities.

I would like to address my concerns with four areas of Basel III:

I. Increased risk weighting for mortgage loans. (1-4 family)

Our bank currently has 700 loans totaling $36 million dollars on our books, so approximately 31.3% of our total loan volume is in this category. Increased risk level percentages as proposed would practically shut down this important function for our bank in the future. Also, assigning risk weightings to individual loans will be an administrative nightmare. Our bank does not have the man power nor the technology to effectively accomplish this task.

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We believe that the current percentages of the now existing risk-based system are completely adequate for community banks. I don't believe that your intent is to have us have to say no to thousands of potential residential mortgage customers because of the Basel III risk weighting system on mortgages. We believe that community banks should continue using Basel I risk weights.

II. Requirement that gains and losses on available for sale securities must flow through to regulator capital

This makes no sense for community banks. Out bank currently holds about seven million dollars in AFS securities. All of us know what could happen if we experienced large interest rate increases. This requirement could severely decrease regulatory capital when, in actuality, nothing changes. Our bank has not sold a single AFS security since FAS 115 was initiated in 1994. Forcing us to transfer all securities to HTM would serve no purpose other than limiting our ability to manage our balance sheet.

III. Change in risk weighting for home equity and other second lien loans

Our bank presently has approximately $6 million in these type loans. Basel III will force us to discontinue this service to future customers and borrowers.

IV. Increased risk weights on delinquent loans

Community banks like ours have long been known for their ability to work with their customers. The Basel III proposal would significantly increase the risk % on past dues of 90 days and would take away our ability to work with customers to help mitigate their problems. In addition, we already account for these situations through our loan loss reserve. Why should we have to set aside capital in two ways for the same issue?

There are other portions of Basel III that concern us that I will not mention. Basel III should be for very large, systemically important financial institutions. Community banks as a whole currently hold only approximately 10% of the total assets of the banking industry. I feel that you should direct your attention and efforts to the "folks" who hold the 90%.

Community banks are the very cornerstone of the tens of thousands of small communities throughout America. Basel III is not for us. We request that you dispose of this proposal and start anew on accounting requirements for banks, or simply exempt community banks from the Basel III proposal. Please allow us and our communities to survive.

Sincerely,

Victor L. Smith

Victor L. Smith
Copiah Bank, N.A.
Board of Directors, Member
Hazelhurst, MS 39083