GUARANTY BANK & TRUST COMPANY

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September 28, 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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were 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").

Guaranty Bank & Trust Company is a commercial bank that has operated in the center of the Mississippi Delta since 1943 and has approximately $550 million in total assets. Guaranty Capital Corporation is the holding company which owns Guaranty Bank & Trust Company. My comments are related to both entities, but Guaranty Capital Corporation appears to be the entity most affected by the proposed changes in the rules.

The bank serves one of the most economically depressed areas of the country, with our home county of Humphreys being the county that has more food stamp

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

recipients per capita than any other county in the country based on a recent report. The county also ranks among the bottom ten counties in the country in several other health, economic, and educational measurements. The area that we serve is primarily agricultural and has experienced significant reductions in population in recent years. Over the past 10 years, the population decrease in our primary service area has been among the largest in the state, losing population in the 16% to 18% range based on the census. Our area also has some of the largest numbers of unbanked people per capita in the nation.

Guaranty Bank is certified by the U. S. Treasury's CDFI fund as a Community Development Financial Institution. We have held that designation for a number of years, and we strive to meet the needs of the communities that we serve. Our average loan balances are much smaller than most banks, with our 2010 loan size ranking us in only the 5th percentile among the peers in the reporting group. Smaller loans are more expensive to make and take more personnel. We are actively involved in the communities that we serve; and to serve those communities, we have to have products that may not be traditional.

In many of our markets, because of a falling population, the real estate market has never been vibrant. Residential properties sell for far less than they would in more populated metropolitan areas and sales are relatively few in number. In many areas we serve, it is impossible to obtain conventional mortgage loans. Most conventional lenders require appraisals based on comparable sales that are within the past three to six months of the date and also within a close proximity of the property. Due to the limited number of sales in many of the areas we serve, conforming appraisals are not obtainable and therefore conventional mortgage loans eligible for the secondary market are not possible. Often there is also a problem with availability of conventional loans due to the small size of the loans. We make many loans smaller than the secondary market will accept. Most banks in our area have combated this problem by making the loans to keep on their books. Due to liquidity and interest rate risk, these loans are structured with longer amortizations to make the payments affordable, but having the loans balloon after three to five years. At the end of the term, the loan is either renewed or if an acceptable appraisal can be obtained refinanced into a conventional mortgage. Guaranty Bank has structured loans like this since its founding in 1943 and has never had problems with this type loan. Also, none of these loans have ever been sold on the secondary market; they are kept on our books. These have been good loans for our bank and give much needed support to our communities.

Guaranty Bank has over $80 million in mortgage loans with virtually all of those loans having balloon payments. In calculating the effects of the proposed regulations, it appears to us that the regulation will increase our risk weighted assets more than $126 million. Using the latest calculator, that will result in our risk weighted assets being in excess of our average assets. This reduces our capital ratios significantly. As we move forward, we will have to assess whether we can continue to make such loans due to capital constraints. Many small banks anticipate getting out of the mortgage loan business because of these regulations. My fear is that although it will affect the bank, it will not be devastating; however, the changes could be devastating to the communities and customers that we serve. The result could be that the only source of mortgage loans would be eliminated, or maybe I should say the only *affordable* source of mortgage loans would be eliminated because I am sure higher cost enterprises would move in and fill the void, to the detriment of the borrower and the community. I am concerned that these regulations will have a disproportionate impact on unbanked people and drive them to other types of lenders.

For the same reasons, the increase in risk weighting of High Volatility Commercial Real Estate exposure will stifle much of the local commercial development that is vital to our small towns. Members of the community come to our bank for loans that will allow them to buy the real estate to start their own restaurants, convenience stores, and other businesses. If the proposed rules are adopted, we may be forced to discontinue these loans and shut out would-be business owners.

We would recommend that the increased loan risk weightings be eliminated. The system is overly complicated, and currently our systems do not track the original loan-to-values on our loans. The regulations would appear to require that we go through virtually all of our real estate loans and develop a tracking system for the loans to determine the risk weightings that would be related to each individual loan.

If the changes in risk weightings are not eliminated, we would recommend that traditional banks be excluded from the regulations so that they can continue to serve their customers and needs of their communities as they have for many years.

If traditional banks are not excluded, we would recommend that Community Development Financial Institutions be excluded.

In all cases, we would recommend that existing loans on the books be grandfathered so that banks do not have to go back and re-evaluate all the real estate loans in their portfolio so that they can accurately report the risk-weighted assets.

Elimination of Trust Preferred Securities (TruPS) from Tier 1 Capital. Sources of new capital are extremely limited for small traditional banks and particularly for Community Development Financial Institutions. These banks have relied on TruPS for capital in holding companies for years. The elimination of these securities over and above what is required by the Dodd-Frank Act will affect smaller banks in a much more dramatic way than the larger banks that have access to the capital markets. Reductions in capital will generally require banks to limit growth which will limit lending. This, in turn, will limit economic recovery and cripple small communities. **We recommend that the guidelines set forth in the Dodd-Frank Act Collins Amendment be adopted and all banks under $15 billion be excluded from the rules concerning the elimination of TruPS from Tier 1 Capital.**

Addition of Accumulated Other Comprehensive Income to Capital Calculations. The addition of AOCI to the capital calculation adds unnecessary volatility to capital planning. Our AOCI on a portfolio of only about $120 million changed over $1.4 million just this month. This volatility represents only a snapshot in time and does not have any significant impact on our liquidity or risk to the Bank. **We believe that the AOCI should continue to be excluded from the capital calculations.**

Summary

To sum up my concerns, I am afraid that the increase of the amount of capital that will be required under Basel III, along with the elimination of some sources of capital such as TruPS, coupled with the increased risk weightings required under the standardized approach proposal will threaten many smaller banks. I believe that these changes will result in some of these banks' selling to larger banks. In my opinion, such further consolidation of the industry hurts the communities and the customers involved. Other smaller banks may be forced to discontinue, or at least curtail, some forms of lending that are very important to their customers in order to manage their institutions' capital positions. Traditional banks in smaller towns are often the lifeblood of the communities that they serve. If they restrain lending to reduce their size or to grow more slowly, the economy will be hurt. I do not believe that either of these scenarios is good for the banks, the communities, the customers, or the nation. I would encourage you to thoughtfully review these proposals in light of how it will affect small town and rural Americans and their economies.

Again, we sincerely appreciate the opportunity to comment on these proposed rules. We hope that you will seriously consider our comments and the effect that these rules will have on traditional banks like ours and the local communities we serve.

Very sincerely yours,

Huey Townsend

Huey Townsend
President and CEO

cc: Senator Thad Cochran
Senator Roger Wicker
Congressman Alan Nunelee
Congressman Bennie Thompson
Congressman Greg Harper
Congressman Steven Palazzo
Mr. Wayne Abernathy, American Bankers Association
Mr. McKinley W. Deaver, Mississippi Bankers Association