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PriorityOne Bank
Member FDIC

Our One Priority Is You.

October 3, 2012

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

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

Re: Basel III Capital and Risk-Weighting Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for public comment by your agencies. As president of a Mississippi community bank and its bank holding company with consolidated assets over $500 million, I am writing to express my views and concerns with the Basel III standards that were recently proposed for our nation's financial institutions. I urge you to amend the standards to better ensure that they are appropriate to each covered institution's size, scale, and complexity. I also urge you to consider an exemption for community banks under $10 billion, as originally intended, from these proposed standards.

PriorityOne Bank serves some 53,000 customers in rural towns and cities located in south central Mississippi and surrounding communities. We have approximately $520 million in assets and our bank has grown by offering citizens of our communities affordable banking products such as residential mortgages, agricultural and commercial loans. These products have allowed our citizens to start their own businesses, buy their own homes, and improve conditions in our communities. However, I fear that the proposed capital and risk weighting rules will have a significant and negative impact on our ability to provide these services. Capital rules as complex as the ones that your organizations have proposed are not necessary to ensure the soundness of every bank in our financial system, and actually could have significant negative consequences for community banks, their customers, and their communities.

While recognizing that capital is important to the strength of our nation's financial institutions, I remain concerned that the proposed standards impose a disproportionately heavy compliance burden on community banks that represent only about 10% of total industry assets yet provide almost 40% of all small business loans. Community banks lack meaningful access to the capital markets on which larger banks rely for capital, therefore we face very different challenges to raising capital. Community banks also do not pose the same risks, in terms of their business model, as larger banks. I would call to your attention that despite the recent wave of bank failures across the nation, community banks have remained strong through these difficult times because of our willingness to serve our communities and trust in our customers. This suggests that, at least among the nation's community banks, capital levels are just one facet of effective bank risk management. Any new capital standards that you develop should reflect these differences among the nation's banks.

I also have a major concern over the unintended negative impact that the proposed standards would have on the availability of mortgage credit. This is a particular concern in our markets where local banks can often be the only source of affordable mortgage lending in the communities we serve. Like most community banks, our assets include a high concentration of residential mortgages that, for valid safety and soundness reasons, do not meet the definition of Category 1 loans that large institutional banks typically have on their balance sheets. A large percentage of these loans are made under terms that would disqualify the loans for sale in the secondary market. Therefore, these loans are held in our portfolio and have always performed well, even under the tough economic times we have experienced over the past few years. Under the proposed risk-weighting rules, the increase in risk weighting of these loans may triple in some cases from 50% to 150%. We currently have approximately $100 million of these or similar loans on our balance sheet, which constitute nearly 20% of our total assets. Our Tier 1 Risk Based Capital at June 30, 2012, would drop on a proforma basis by 218 basis points, and our Total Risk Based Capital by 326 basis points, under the proposed rules. If the proposed rules are adopted, we may be faced with the decision to protect capital and curtail or forego these loans in the future.

For the same reasons, the increase in risk weighting of HVCRE will stifle much of the local commercial development that is vital to our small towns and communities. 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.

Finally, the addition of AOCI to the capital calculation adds unnecessary volatility to capital planning. Our AOCI is currently $539 thousand. A 100 basis point shock reduces our capital by $1.7 million, while a 400 basis point shock diminishes our capital by $9.1 million. This volatility represents only a snapshot in time and does not have any significant impact on our liquidity or risk to the Bank.

Our bank is also a Subchapter S organization. The volatility inherent in including AOCI in the capital calculation as well as the reduction in capital ratios caused by the increase in risk weights due to our mortgage loan portfolio could very well result in our organization having taxable income, but being unable to make distributions to our shareholders to pay their personal income tax associated with this income. This will needlessly and unnecessarily diminish our already limited access to our only source of capital, which consists of our existing shareholders and members of our local communities. At a minimum, our organization should be allowed to distribute what it would have paid in taxes it if were a C Corporation.

For the above reasons I am concerned that the proposed standards, if adopted in their current form, could accelerate the recent trend toward consolidation in the banking industry and leave many of our small rural communities with no access to the credit that they need to survive or expand. I also believe that it is critical to continue to nurture the survival of smaller community banks since they play a vital role in small business and agricultural lending and often are the only entities willing to offer these small loans in their local communities. Adopting a highly complex, "one size fits all approach" to capital standards should be avoided since it could undermine these banks' viability and lead them to curtail lending activity in already underserved areas of the country.

In closing, I respectfully urge you to examine carefully the likely effects of the new capital standards on the continued viability of our nation's community banks, and amend these standards as necessary to ensure that our concerns are resolved.

Sincerely,

Robert J. Barnes
President & CEO

cc: Senator Roger Wicker
Senator Thad Cochran
Representative Greg Harper