Central Bank

Central Bank & Trust Co.
P.O. Box 1360
Lexington, KY 40588-1360
(606) 253-6222

October 3, 2012

Board of Governors of the Federal Reserve System
Res.comments@federalreserve.gov

Federal Deposit Insurance Corporation
comments@FDIC.gov

Re: Regulatory Capital Rules: Regulatory Capital Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Dear Sirs:

Thank you for the opportunity to comment on the proposed Basel III Regulatory Capital regulation. We hope you find the comments below helpful in refining the final standards.

Risk Weighting for 1-4 Family residential Mortgage Loans

The proposed rule requires risk weighting based upon LTV ratios for 1-4 Family Residential Mortgage Loans. While intuitively this recommendation has appeal, administratively this may be very difficult for banks to administer.

Our understanding of this proposal is that the LTV will be based upon the most recent appraisal of the property, whether received at origination or renewal. The LTV will be the loan balance of any closed end obligation plus the line on any open end instruments, compared to the latest appraised value of the property. Many banks will have the closed end relationship on a different data processing platform than the open end relationship. Challenges will occur in combining the total balance for the customer, or property in order to calculate the total loan balance. Most banks calculate risk based capital monthly, so this will be a time consuming recurring process.

150 Percent Risk Weight for Loans and Other Exposures › 90 Days Past Due

The proposal calls for risk weighting all loans which are past due 90 days or more in the 150 percent risk weight category. Again, intuitively this has appeal. Recent economic conditions have prompted increased scrutiny of past due loans by bank management, regulatory agencies, and public accounting firms. This increased scrutiny has resulted in banks being more conservative and aggressively establishing reserves for impaired assets. These reserves have already impacted Stockholder Equity by creating additional expense reflected in the bank's earnings performance. To increase the risk weight on these loans, which have already been carefully scrutinized for potential loss, appears to be a "double dip" on capital for these loans.

20 Percent CCF on Commitments with Maturity One Year or Less

Our bank typically carries a relatively large amount of commercial revolving lines of credit. Some of these commercial customers use these lines as a liquidity fall back, while others use these to handle seasonality in their business. Over the past several years we have not seen significant variance in the balance of lines available to draw at any point. We have seen commitments to individual customers vary, as they utilize or pay down their lines, but the aggregate undrawn commitment balance has not varied significantly. Therefore, we feel that assigning additional capital to these undrawn commitments is an unnecessary addition to the risk based capital requirement.

Trust Preferred Securities

The original Dodd-Frank legislation grandfathered Trust Preferred Securities for community banks until these securities matured. The proposed rule starts phasing Trust Preferred Securities out ten percent per year beginning in 2013. This rule does, however, grandfather instruments issued under the Small Business Job's Act of 2010, or prior to October 3, 2010 under the Emerging Economic Stabilization Act of 2008. If the purpose of excluding Trust Preferred Securities is to improve the quality of capital held, grandfathering these instruments appears inconsistent and contrary to the stated goal of improved quality of capital . This portion of the rule appears to discriminate against those institutions who had the ability to raise additional capital through corporate debt in the open market.

Other Comprehensive Income

For most banks Other Comprehensive Income will consist of unrealized gains and losses on available for sale securities and unrealized gains and losses generated from defined benefit retirement plans. The available for sale designation does not indicate that an institution has any intention of actually liquidating the security. For defined benefit retirement plans, the nature of the plan creates long term liabilities. The nature of these instruments makes the probability of the institution actually experiencing an impact from liquidating these instruments undeterminable. Therefore, inclusion of these items in current capital calculations appears unnecessary. If it is ultimately determined that other comprehensive income is to be included in the risk based capital calculation, a phase in period for including all of these items appear to be appropriate.

In summary, we feel that these provisions would impose an undue hardship upon community banks due to the additional efforts required to monitor and calculate the requirements. In addition to the time spent, we believe that potential benefits of these provisions to the community banking system would be insignificant at a time many banks are struggling to regain earnings in a stagnant economy.

Thank you for your consideration of these comments.

Sincerely,

Luther Deaton, Jr.
President and CEO