October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

WILLIAM A. RAY
President and
Chief Executive Officer

Re: Basel III Capital and Risk-Weighting Proposals

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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. We specifically appreciate the opportunity to discuss our concern about the impact of these proposals – particularly the proposed risk weighting of certain assets – on our bank and our customers.

Our History

Our bank, BankPlus and its holding company, BancPlus Corporation, serve the towns and cities of most of Mississippi, including the Mississippi Delta. From our beginnings as Citizens Bank & Trust Company in rural Mississippi over one hundred years ago, we have been blessed to grow into a strong community bank with over $2.2 billion in assets. While our bank has certainly grown in asset size, we have maintained our small-town commitment which is reflected in our motto – "It's more than a name. It's a promise." We fulfill that promise by focusing on our customers above our bottom line. While that may sound clichéd, we live that promise by offering our customers 7:00 A.M. to 7:00 P.M. banking in many locations because our customers have come to expect we will adapt our business to meet their needs.

These needs not only include innovative hours, but innovative products as well. Innovative products are needed because our communities, such as our birthplace of Belzoni in Humphreys County, are not your typical communities. Although Belzoni may lay claim to the title "Catfish Capital of the World" due to producing more farm-raised catfish than any other U.S. county, it also holds less

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notable distinctions. As of the 2000 census, Humphreys County was the 56th poorest county out of 3,141 counties in the United States – ranking it in the bottom 99.98% percentile of all counties. Unfortunately, Humphreys County is only the 7th poorest county in the State of Mississippi.

<u>Our Communities</u>

Despite such obstacles, our bank has grown by offering the citizens of our communities affordable banking products such as residential mortgages and agricultural and commercial loans as well as other non-banking services. We strive to help our communities pull themselves out of the bottom tier in most standard of living categories and have refused to accept the status quo. For example, recognizing that we reside in the most obese state in the country, we launched our WellnessPlus program in 2003 which provides a comprehensive web based wellness program to improve the health of employees and manage healthcare costs at client companies throughout the United States. WellnessPlus has garnered international recognition and, more importantly, has improved the lives of our employees and customers.

Further, our efforts to serve our communities – most of which are in the bottom tier of communities across the country – have been recognized by the United States Treasury Department through our certification as a Community Development Financial Institution ("CDFI"). As a CDFI, we have made a commitment to serve the underserved and support the economically distressed communities and citizens of our state. These efforts have been rewarded with a recent Bank Enterprise Award from the CDFI Fund as well as the single largest allocation of proceeds in the nation under the Community Development Capital Initiative ("CDCI"). The proceeds from these awards have let us fulfill the goals of the CDFI Fund by developing innovative products that allow low-income and first-time homebuyers to give their families a place to live and start-up business the resources to develop our communities. Yet these same products and services which we have been encouraged to develop are now the products and services being most heavily penalized under the proposed risk-weighting rules.

<u>Recommendation:</u> *In addition to the more general requests set forth in our conclusion below, we would like to particularly press an exemption for CDFIs. These institutions play a unique and niche role in our nation's financial system by serving those citizens that have otherwise been passed over or given up on by the larger financial institutions. The proposed rules penalize the very types of products and services that the CDFI Fund has encouraged. If the proposed rules are finalized, an exemption for CDFIs would constitute a unified voice from our governmental entities that all citizens will be afforded the opportunity to obtain financial stability and independence.*

Our Business

Risk Weighting of Assets

Residential. Like other CDFIs and 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. Many of our customers do not want or do not qualify for a Category 1 mortgage due to various reasons, such as no appraisal due to lack of comparables, size of the loan, or credit history. Additionally, it is not prudent for our bank to carry long term mortgage loans. Instead we believe that our customers are better served with shorter term balloon loans that generally renew at reasonable rates to fully amortize the loan.

But we don't end our personal relationships and concern for our customers once we have originated these mortgages. In fact, we believe that our commitment to our communities goes well past the loan closing. This belief is what lead us to develop our Homeownership Stabilization Program in 2009. Under this program, we convert existing mortgages with past due payments to new five-year balloon loans on 40 year amortization schedules with fixed rates and no fees. Since the program's inception, we have helped 100 families, almost half of whom live in Low and Moderate Income (LMI) communities, stay in their homes and provided them financial literacy training. Of the 100 borrowers we have helped, only 4 of the loans have gone to foreclosure. Yet the proposed standardized approach for risk weighting assets would, in nearly all cases, at least double the risk weights of these loans and discourage us from assisting our customers when they need our help the most.

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Similarly, under the proposed rules, the increase in risk weightings for the rest of our 1-4 family residential loans may triple in some cases from 50% to 150%. We believe that all of our 1-4 family residential loans on our balance sheet will fall into the Category 2 risk weighting. Applying the rules as proposed, both our Tier 1 Risk Based Capital and our Total Risk Based Capital at June 30, 2012, would drop on a proforma basis by nearly 300 basis points. If the proposed rules are adopted, we may be faced with the decision to protect capital and forego these loans entirely. We have limited access to raising significant capital and the bank will lose a significant source of income if it must forego these loans. More importantly, the citizens of our communities could be forced to look elsewhere for such products. Their choices will be limited to large institutions – who likely won't be willing to extend credit to these borrowers – or other lending institutions that often only give loans with truly punitive terms and conditions.

Agricultural. As Citizens Bank & Trust Company, our bank built its business by serving Mississippi's number one industry – agriculture. As you can imagine, farming is no easy way to make a living. Constantly battling mother nature, unpredictable commodity prices, and seasonal labor may seem futile to some. Yet our farmers employ nearly 30% of the state's workforce and operate a $7.02 billion industry. We are proud to have been an instrumental part of this industry for the last 100 years, but face the prospect of having to dramatically reduce this line of business.

To serve these agricultural communities, our bank has developed a wide variety of loan products to assist farmers with all facets of their operations. Due to the unique nature of the agricultural business, these loan products are non-typical and are generally tailored as single pay loans that reflect the fact that farmers' incomes arrive on an annual basis. Therefore, requiring monthly payments on these loans does not make sense and would shut out access to the credit these families need. Over the decades that our bank has been making these loans, we have developed a sophisticated underwriting system that methodically analyzes 10+ years of a farmer's crop yield. This system has allowed these products to not only exist, but thrive, with essentially no delinquencies and minimal charge offs. Yet the proposed rules will in most cases increase the risk weighting of these loans to 150% or 200% and discourage their use. The increase not only threatens a viable line of business for our bank, but poses a real risk to a large segment of Mississippi's population that has come to rely on such products to sustain a way of life.

Commercial. Like residential mortgages, the increase in risk weighting of high volatility commercial real estate ("HVCRE") will stifle much of the local commercial development that is vital to our state's small towns. Members of the community come to BankPlus 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, and the risk weighting of these loans are increased, we may be forced to discontinue these loans and shut out would-be business owners. Again, it is the communities that these business owners could improve that will be harmed the most.

It should be noted as well that the compliance costs of the proposed rules, especially in regards to HVCRE loans, will be especially burdensome to community banks such as ours. Under the proposed rules, a loan will be classified as a HVCRE loan if it does not receive at least 15% of the "as completed" appraised value of the property from the borrower with a contractual obligation to remain in the project throughout its lifespan. The proposed rule appears to disregard the reality that many of these projects receive financial assistance from third parties, in the form of grants and rent assistance. Further, we do not have a way to determine whether these financial metrics are met for the existing loans on our balance sheet. The time and manpower that would be required to undertake such a project would be massive.

Capital Calculations

AOCI. Under the proposed rules, a revised definition of accumulated other comprehensive income ("AOCI") has been included as a component of the new Common Equity Tier 1 Capital ("CET1"). The proposed definition amends the current makeup of AOCI to include net unrealized gains and losses on available-for-sale debt and equity securities ("AFS") that must now flow through to CET1. The revision of AOCI to the capital calculation adds unnecessary volatility to capital planning by tying this component of Tier 1 capital to interest rate movements rather than credit risk. As you know, interest rates on debt securities can fluctuate daily. At June 30, our AOCI was $1,636,000. A 100 basis point shock reduces our capital by approximately $6 Million after tax, while a 300 basis point shock diminishes our capital by approximately $32 Million after tax. These scenarios are not impossible or even unlikely. We are currently experiencing a historically low period of interest rates. Interest rates are sure to rise in the future. This volatility in AOCI represents only a snapshot in time and does not have any significant impact on our liquidity or risk to the bank.

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Trust Preferred Securities. Like most community banks, we do not enjoy easy access to capital markets. Traditionally, bank holding companies such as ours have enjoyed the ability to issue trust preferred securities, often referred to as TRUPS. These instruments have provided smaller institutions like BankPlus with significant amounts of low-risk, Tier 1 qualifying capital. This source of capital, among others, has allowed community banks to make the loans and provide the services its customers have come to expect. Further, these TRUPS were encouraged by the regulatory agencies and were issued in full compliance with applicable regulations. However, under the proposed rules these instruments will be phased out of the qualifying Tier 1 capital calculation over a 10 year period. Faced with this prospect, we must either raise capital during these historically slow economic times or consider reducing the size of the bank. Reducing the size of the bank would lead to fewer jobs for our communities and fewer services for our customers.

Conclusion

As you are aware, the recent financial crisis was for the most part not caused by community banks such as ours. We have remained strong through these difficult times because of our willingness to serve our communities and trust in our customers. Yet, the impact of the proposed rules will be borne disproportionately by community banks which lack the resources to implement these excessively cumbersome and complicated rules. If the proposed rules are finalized, we ask that you consider adopting the following recommendations.

- *As originally proposed by the Basel Committee on Banking Supervision, the proposed capital rules and standardized approach to risk weighting assets did not apply to financial institutions under $10 billion. This decision reflected an understanding that such banks do not operate in the same manner as their multi-national counterparts and therefore do not pose anywhere near the systemic risks being addressed by these standards. Yet the proposed rules adopted by your respective agencies contain no such exemptions. Banks such as ours, which lack the resources, infrastructure and expertise to successfully implement these rules, should not be subject to a disproportionate burden when compared to our risk. Exempting banks under $10 billion in total assets from the Basel III minimum capital and risk weighting rules, or at least exempting such banks from the proposed rules as they pertain to the standardized approach to risk weighting assets would demonstrate an acknowledgment by the regulatory agencies that community banks such as ours play a vital and distinct role in our nation's financial system. We respectfully request that such an exemption be implemented if the proposed rules are finalized.*

- *As explained above, community banks such as ours currently do not have the technical expertise or infrastructure to retroactively apply the proposed rules to our existing assets and capital calculations. Therefore, we request that if the proposed rules are finalized, that they provide for existing assets to be grandfathered in using the current risk weighting rules. Further, we request that any application of the new rules, particularly in regard to the risk weighting of 1-4 family residential mortgages and commercial real estate, not take effect until at least January 1, 2015, in order to let community banks fully assess their probable impact and develop the infrastructure needed to implement them.*

- *A significant aspect of the bank's operations is to purchase the obligations of certain governmental entities and provide them with the needed proceeds to carry out their functions. These securities carry very little credit risk, but are vulnerable to almost non-stop fluctuations in interest rates. The revisions to the definition of AOCI makes this interest rate sensitivity flow through to Tier 1 capital and discourages the bank from purchasing such obligations, yet it does not have any measurable impact on the bank's credit risk management. If the proposed rules are finalized, we request that the definition of AOCI remain as it currently is. Likewise, we request that the existing trust preferred securities a bank or its holding company have issued be allowed to remain as Tier 1 capital without being subject to the proposed phase out period.*

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 our local communities.

Sincerely,

BankPlus

William A. Ray

William A. Ray
President and Chief Executive Officer