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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to comment on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, The Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Let me begin with the following statement. Basel III was designed to apply to the largest, internationally active, banks and not community banks. First State Bank of Brownsboro (FSB) did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. We operate on a relationship-based business model specifically designed to serve our customers and community on a long-term basis. FSB has proudly served its community since 1917! These new proposals would not only have a direct negative effect on our bank, but would also have a negative effect on how well we were able to continue servicing our customers and community.

The inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital under certain economic conditions. For FSB the inclusion of AOCI represents the unrealized gains and losses on investment securities held available-for-sale. Under current economic conditions rates are at all time lows and bonds are showing unprecedented unrealized gains. As rates rise and bond prices fall, the proposed AOCI in capital for FSB on a 300 basis point rate increase would cause capital to fall by some 50%. Again the largest banks have ways to mitigate this type of capital volatility, through derivatives like rate swaps, option and futures contracts, that we do not.

Additionally, the proposed risk weighted framework under Basel III is too complicated, and will further jeopardize the housing recovery in the hundreds of communities that community banks serve. We depend on residential mortgage balloon notes to mitigate interest rate risk, and our customers depend on the options we have to offer. Residential mortgages, whether balloons, interest only, or second liens are the bread and butter and a stable part of much of the loan portfolio in community banks. These new risk weight proposals will only cause us to exit the housing market all together, resulting in negative impacts on our communities.

Finally, imposing distribution prohibitions on Subchapter S banks conflicts with the requirement that shareholders pay income taxes on earned income. Putting these capital buffers in place may cause shareholders to violate provisions of the Internal Revenue Code.

In the end, all of the proposed Basel III rules were meant to be enforced on the largest of internationally active banks, not First State Bank Brownsboro and the like. These complicated and intrusive rules will only hurt communities and customers, and lead to more bank consolidation and an end to community banks as we know them today. We urge you to let community banks remain under the, tough but fair, Basel I framework.

Thanks You,

Jeffery Fulgham Jr.
AVP
First State Bank Brownsboro