August 30, 2012

Mr. 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

Dear Mr. Feldman,

Thank you for the opportunity to provide comment on the Basel III proposals 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").

To provide some background, CB&S Bank (the Bank) is a wholly-owned subsidiary of CBS Banc-Corp (CBS), a closely held one bank holding company. The Bank serves small communities in Alabama, Mississippi, and Tennessee through 42 branch locations. Headquartered in Russellville, Alabama, the Bank has approximately $1.3 billion in assets. The Bank is a typical community bank model providing loan and deposit products to both personal and business customers, whereas CBS is essentially a shell holding company providing management services and financial strength to the Bank.

Foremost, we support strong capital requirements to insure the stability of financial institutions. Appropriate capital requirements are necessary to avoid over-leveraging and to allow suitable levels of risk-taking needed to fuel economic growth and job creations. The proposed Basel III requirements, however, have heightened our concern about the direct impact on financial institutions, specifically the Bank and CBS, and the subsequent indirect impact on non-financial businesses to access the capital and credit needed for expansion and economic growth.

First, we have a concern about the impact of Basel III's inclusion of unrealized gains and losses on available-for-sale debt securities as a regulatory capital component.

Recognition of this component would introduce substantial volatility into the Bank's capital ratios as a result of temporary movements in interest rates without regard to changes in credit risk. The volatility associated with unrealized gains and losses on available-for-sale debt securities may require the Bank to maintain a higher than feasible level of capital in order to avoid sanctions applicable to banks that fall into the buffer range. To stabilize capital ratios under the new proposal, certain types of investments routinely used as important asset-liability management tools and revenue generating sources may be avoided altogether. In a rising rate environment, the downward pressure on capital levels could potentially cause banks to intentionally avoid debt securities in order to maintain capital ratios at desired or required levels, negatively impacting the ability of banks to contribute to economic recovery.

Under the current regulatory capital structure for the Bank, the stability in our capital ratios contributes consistency to balance sheet management. Because of the Bank's ability to hold securities until maturity, changes in unrealized gains and losses on available-for-sale debt securities are unlikely to be realized and typically have no effect on the organization. The proposed rule should be revised so that unrealized gains and losses on available-for-sale debt securities do not flow through regulatory capital. This would allow unrealized losses due to market conditions, as opposed to fluctuations of interest rates, to be reflected in regulatory capital.

A second point of concern is the proposed revision involving risk-weighted assets. The revised risk-weighting methodology will require additional tracking and monitoring of certain assets. This is expected to introduce an additional administrative burden to the Bank. Existing reports will require modifications to align the data with the proposed loan to value stratifications, and in some instances, manual processes may be necessary to provide the required information for proper risk-weighting.

The result of the proposal would require the Bank to face higher capital requirements. The allocation of capital and re-pricing of risk to the business lines must be further evaluated to determine which measures offer the best returns on risk-weighted capital after giving effect to the new adjustments. For example, the financial model for residential lending may need to be reworked because of the increase in risk weighting for higher loan-to-value residential loans.

A third area of concern is the phase-out of trust preferred securities. CBS has approximately $35 million of outstanding trust preferred securities, and their elimination from regulatory capital would have a negative impact on the capital ratios for both the Bank and CBS. The cost incurred for paying off existing trust preferred securities, along with the reduction of core capital of not only CBS but also the Bank, may limit the services provided to our small communities and future opportunities of the Bank. Being closely held, the alternatives in raising capital are minimal. Large regional and publicly-
held banks can raise capital in public arenas, whereas small community banks, such as CB&S Bank, do not have these capital sources.

Again, the opportunity to comment on the aforementioned items is appreciated. Because of the small markets served, non-interest expense for a bank such as CB&S Bank is generally much higher as a percentage of gross income net of interest expense. In order to provide our markets with needed services, it may be necessary to close some of the marginally profitable branches we now have. We simply cannot afford to incur the expenses necessary to comply.

Sincerely,

Dennis Upchurch
President and CEO

Cc: The Honorable Richard Shelby
United States Senate

The Honorable Spencer Bachus
United States House of Representatives

Mr. John Harrison
Superintendent of Bank
Alabama State Banking Department