



October 18, 2012

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

First State Bank is a community bank from the State of Tennessee. The bank provides consumer and commercial services in communities in West, Middle and East Tennessee. For more than 125 years, First State has been dedicated to providing the best possible financial services to our customers.

We believe that community banks such as First State Bank are essential to generate employment, economic growth and financial services to small businesses and consumers.

First State Bank is a private company with \$1.7 billion in total assets and has 32 bank branches with additional offices that promote consumer finance lending, mortgage home lending, agriculture lending, small business production, commercial lending, insurance services, trust services, and brokered investment services throughout the State of Tennessee. Our company has more than 473 employees, and our strategy is to continue the growth pattern.

However, First State Bank, in order to maintain this growth path, needs to have acceptable rules and regulations that do not harm the ability to leverage our services.

The Basel III Capital Proposal for community banks has several regulations that will affect the "financial tool box" that for years has proven to serve our communities and customers.

For example, requiring unrealized gains and losses for available for sale (AFS) securities to flow through Common Equity Tier 1 Capital is an issue that will create significant volatility in the capital of the bank. Presently, our bank is a well capitalized institution, and we have exceeded the regulatory capital requirements under the present rules for years. If this new rule passes, our capital ratios will have to be monitored more closely, because they will have significant volatility from one quarter to the next.

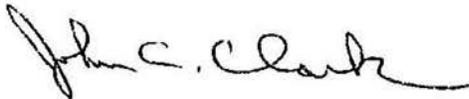
Another proposal under Basel III is the change of the standardized risk weights for assets. This issue will interrupt the prompt economic recovery that is needed to create more jobs in our country. Category I and Category II are unnecessary and both work against our ability to provide affordable mortgage products to our customers. The risk weights for these types of assets could go up to 200% from 50% under the present rules.

In addition, trust preferred securities will be phased out of Tier 1 Capital for all bank holding companies with more than \$500 million in assets under the Basel III proposal. Presently, our company has \$27.1 million in trust preferred securities. These instruments have helped us to manage our balance sheet and growth for several years. The trust preferred securities constitute a section of the capital plan and have been essential in the past years to our growth as a company.

We know that the additional capital regulatory burden in the present Basel III form will significantly affect the customers and communities that First State Bank proudly serves. These changes will also retard economic growth in our nation.

First State Bank is opposed to the present approach by the federal banking agencies to implement the Basel III.

Sincerely,

A handwritten signature in cursive script, appearing to read "John C. Clark".

John C. Clark
President / CEO
FIRST STATE BANK