October 23, 2012

Federal Deposit Insurance Corporation
Executive Secretary Section
550 17th Street, NW
Washington, DC 20429
Email: comments@FDIC.gov

RE: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Email: regs.comments@federalreserve.gov

RE: Basel III docket No. 1442

Ladies and Gentlemen:

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").

I currently serve as controller and chief accounting officer of United Community Banks, Inc., a bank holding company headquartered in north Georgia with approximately $6.7 billion in assets and its wholly-owned subsidiary bank. In my position, I am responsible for all external financial reporting with the bank regulatory agencies and the Securities and Exchange Commission. I am also closely involved with measuring and managing interest rate risk within our company.

I am writing to express my concern with certain provisions contained within the proposal. My comments are focused on the requirement to include unrealized gains and losses on available for sale securities and other components of Accumulated Other Comprehensive Income (AOCI) in common equity Tier 1 capital (CET1). I believe the inclusion of those items in CET1 will result in excessive volatility in capital ratios which would:

- Negatively impact the ability of banking organizations to contribute to the economic recovery in a rising interest rate environment. With the inclusion of unrealized losses of available for sale securities in CET1, rising interest rates would put downward pressure on banking

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organizations' capital levels, potentially causing banking organizations to reduce the growth of or shrink their securities portfolios considerably to maintain capital ratios at desired or required levels.

- Because of the substantial volatility introduced into CET1 and Tier 1 capital, it would force banks to maintain ratios of both CET1 to risk-weighted assets and Tier 1 capital to risk-weighted assets substantially above the levels that would otherwise apply in order to avoid the sanctions applicable to banks that fall into the capital conservation buffer.

- Discourage banks from engaging in routine activities used as an important asset-liability management tool.

While those consequences are undesirable, they are also completely unnecessary as the resulting capital volatility does not provide a representative measure of the bank's exposure to interest rate risk, particularly as it relates to community banks. I'll use United Community Bank as an example.

The business of United Community Bank is relatively simple and is consistent with community banks across the country. We make loans to commercial, small business and retail customers and we take deposits within our markets. Our balance sheet is also relatively simple and reflects our business. Most of the components of our balance sheet are accounted for at historical or amortized cost. Our available for sale securities portfolio and our interest rate derivatives used for interest rate risk management purposes are the only major components of our balance sheet that are regularly marked to market. Both are marked to market through equity in the form of Other Comprehensive Income.

While our business may be simple, we engage in rigorous balance sheet modeling to measure our exposure to interest rate risk. We measure interest sensitivity over short periods by employing an "Earnings at Risk" or "EAR" model that employs various scenarios using rate shocks and ramps over time horizons ranging from one to two years to measure the effect on earnings of changes in interest rates. We also measure interest rate risk over longer time horizons by employing an "Economic Value of Equity" or "EVE" model that calculates the change in equity resulting from the impact of changing interest rates on the components of our balance sheet under various rate scenarios. As with most banks, we use the results of our modeling to manage interest rate risk toward an interest rate neutral position.

I include the explanation of our interest rate risk management practices because it is very important to understand when considering the impact of changing interest rates on capital under the proposal. Because only two components of our balance sheet are accounted for at fair value, including those fair value adjustments completely ignores the natural hedging relationship of other balance sheet components that are not accounted for at fair value. For example, a portfolio of fixed rate available for sale securities (accounted for at fair value) that are entirely funded with matched maturity fixed rate wholesale borrowings (accounted for at amortized cost) would show tremendous equity capital volatility in periods of significantly rising or falling interest rates even though the bank's interest rate sensitivity position is completely neutral. By excluding the fair value adjustment on available for sale securities and other AOCI components from Tier 1 capital as is done under current risk-based capital rules, we achieve a much more appropriate measure of the effects of interest rate changes on capital.

Probably the most important consideration is the timing of this proposal. Interest rates have remained at historic lows for an extended time period. Many banks currently maintain a positive mark on their

available for sale portfolios but that positive mark will quickly shift to negative when rates begin to rise. The impact on capital ratios could be tremendous, resulting in all forms of unanticipated consequences at a time when the industry is just beginning to recover.

With this in mind, I strongly recommend that you remove the provision of the proposal that includes components of AOCI in CET1 as I believe it misrepresents the impact on capital of changes in interest rates and has the potential to do immeasurable harm to an industry that is just now beginning to regain its footing. While the alternative proposed in Question 16 in the Notice of Proposed Rulemaking is an improvement over the proposal it does not go far enough. Current rules for recognition of Other Than Temporary Impairment are adequate to address the credit related fair value adjustments inherent in the available for sale securities portfolio.

Another provision contained in the proposal that I find troubling is the requirement that 1-4 family loans that result in a balloon payment at maturity are automatically moved to the higher risk-weighting category (Category 2). I believe this is inconsistent with the risk inherent in the loan and inconsistent with the underlying theory of the risk-based approach in the proposal. The balloon payment acts as an option written in favor of the lender which gives the lender the right to renew the loan at maturity or decline the loan. An option written in the favor of the lender does not in any way increase the risk to the lender. Therefore a balloon payment alone should not give sufficient cause for the loan to be moved to the higher risk weighting category. I believe this provision should be removed from the proposal.

There are many questionable provisions contained in the proposal. I have chosen to address only those that I found the most troubling. The banking industry is still in the process of recovering from one of the most challenging periods in its history. While I applaud the efforts to bring more precision to the risk-based approach of determining capital adequacy, I believe we must be very thoughtful in this process and carefully consider the impact of new regulations on the flow of capital into the industry. Thank you for considering my views. Please feel free to contact me if you would like to discuss my concerns.

Sincerely,

Alan Kumler
Senior Vice President, Controller and
Chief Accounting Officer
United Community Banks, Inc.

cc Jimmy Tallent, President and Chief Executive Officer, United Community Banks, Inc.
Rex S. Schuette, Executive Vice President and Chief Financial Officer, United Community Banks, Inc.

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