October 18, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Basel III Docket No. R-1442

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
comments@FDIC.gov
Basel III FDIC RIN 30964-AD95,FIN 3064-AD96, and RIN 3064-D97

Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Basel III OCC Docket ID OCC-2012-0008,0009, and 0010

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Colony Bank ("Colony") is a $1.1 billion community bank headquartered in Fitzgerald, Georgia. The bank was chartered in 1976 and is the sole subsidiary of the bank holding company, Colony Bankcorp, Inc. that was chartered in 1982. We currently operate twenty eight offices in eighteen counties located in central, south and coastal Georgia and through bank acquisitions we have a couple of offices that date back to the early 1990s.

As a community bank, our primary lines of business are providing deposit and loan services to individuals, professionals and small businesses. We pride ourselves in serving the communities within our markets in ways that promote economic growth and job growth. We are concerned that implementation of the Basel III capital proposals will negatively impact our ability to serve our customers and communities by requiring us to accumulate and hold additional capital above our current "well-capitalized capital position".

The following comments reflect our estimates of the specific impact on Colony Bank of the proposed Basel III rules:

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Inclusion of Accumulated Other Comprehensive Income in the Calculation of Common Equity Tier 1 Capital

We are concerned about the potential volatility to our balance sheet through the inclusion of Accumulated Other Comprehensive Income ("AOCI") in the calculation of Common Equity Tier 1 Capital ("CET1"). The only component of AOCI for Colony and primarily for most community banks is unrealized gains and losses in the available-for-sale securities portfolio. We believe Basel III would result in increased volatility to bank balance sheets during periods of rising and falling interest rates and would be harmful to the banking industry.

Today Colony has approximately $663 thousand of AOCI in our equity account or .60% of our CET1 however in an up 300 basis point shock scenario this moves to ($16.27 million), or a change of approximately $17 million downward. This is due to the extremely low interest rate environment we are in, despite the fact that our securities portfolio has a very conservative average life of 3.5 years. Given the current low interest rate environment, upward movement in interest rates is highly likely and the above scenario would result in approximately 14.7% reduction to our CETI. We fail to see how introducing such volatility to banks' capital ratios based on changes in interest rates is consistent with regulating banks to be more safe and sound. The proposed rule will place significant pressure on regulatory capital in a rising rate environment.

Community banks will be forced to manage their securities portfolio in a manner to minimize the impact of unrealized gains and losses on CET1. Liquidity could be reduced as banks classify securities as Held to Maturity in order to avoid inclusion in CET1. Reclassifying to Held to Maturity would severely limit management's ability to adjust our securities portfolio for ALCO, liquidity and funds management purposes.

The unrealized gains and losses available for sale securities do not need to be included in CET1. At a minimum, all U. S. Government, U. S. Government Agency and U.S. GSE securities should be excluded from the CET1 calculation as they represent no credit risk.

Phase Out of Restricted Core Capital Elements

The Basel III Proposal phases out from Tier 1 capital eligibility the proceeds received from the issuance of certain securities that are considered "restricted core capital elements" under the current rules. We maintain on the holding company books $23.5 million of trust preferred securities that would be phased out from Tier 1 capital eligibility.

The Collins amendment to the Dodd-Frank Act (Section 171) grandfathered trust preferred securities (TruPS) for banks under $15 billion. TruPS represents 23.1% of the equity capital of Colony Bankcorp, Inc. The impact on our holding company will require the exclusion of an additional $2.3 million in capital each year for 10 years from CET1. The only way to replace this capital is through earnings as access to capital markets continues to be a struggle for community banks. For companies under $5 billion, it continues to be a tremendous challenge to tap the capital markets for any additional capital and the phase out of TruPS would only add additional volatility in maintaining required regulatory capital levels.

Therefore, we see no reason to phase out the eligibility of proceeds from the issuance of TruPS in advance of the stated maturity of those securities. If this rule goes forward as proposed, it should be modified to require the phase out to their original maturity, rather than the proposed 10 years. This

would reduce the annual amortization of TruPS for Colony Bankcorp from $2.3 million to approximately $975,000, a more reasonable impact.

Revised Risk-Weighting Residential Mortgage Exposures

The Standardized Approach Proposal divides residential mortgages into two categories (referred to as "category 1" and "category 2" exposures) for purposes of determining risk-weighting. Category 1 exposures are generally viewed as having less risk and therefore are assigned more favorable risk weights, depending upon the loan-to-value ratio for the exposure. Broad requirements to qualify as category 1 are the terms of the residential mortgage exposure provide for regular periodic payments that do not: (1) result in an increase of the principal balance; (2) allow the borrower to defer repayment of principal of the residential mortgage exposure; or (3) result in a balloon payment. Of most concern is item (3) above regarding balloon payments. We believe this item will have an unanticipated and unnecessary impact on bank balance sheets, particularly those of community banks.

As an interest rate risk management tool, Colony has structured its residential mortgage loans on the basis of a 15-, 20-, or 30- year amortization of principal with a balloon payment at the end of three to five years. By doing this, the principal amount of the loan amortizes, but we have the ability to review the credit and change its terms at the time of maturity. The balloon payment structure allows the bank to shorten the duration of the asset, which allows the bank to better match the durations of its liabilities. The matching of durations is critical in managing a bank's interest rate risk.

That being said, approximately 25% of Colony's loan portfolio is in 1-4 residential loans, of which we will primarily categorize as category 2 due to balloon payment structure and utilization of stated income vs. verified income. Based on loan to value assumptions and the category 2 classification, the impact would be additional risk-weighted assets of $176 million. In addition to this increase in risk-weighted assets, it likely would significantly reduce lending for non-qualifying first lien mortgages and home equity loans, again restricting credit availability to creditworthy individuals. We have exhibited prudent underwriting with our 1-4 residential loans as reflected with our three year loss history for our 1-4 mortgage portfolio (as of 09/30/2012) of approximately 0.69%. While we acknowledge there have been losses with this sector of the portfolio we believe that our historical loss percentage points to prudent underwriting before and during the recent economic downturn. We consider the proposed rule to be very punitive in that risk-weighting with 1-4 residential loans will increase from the current 50% weighting to 100%-200% depending on loan to value ratios. Under Basel III, approximately 90% of this portfolio would receive a risk weighting from 100% to 200%, and would require approximately $15 million more Tier 1 capital to support this sector of our loan portfolio.

The worst impact of this rule will be reduced or elimination of residential loans from our loan portfolio. An example of borrowers who may not qualify for traditional mortgages include customers who are self-employed and therefore do not have consistent documented income, notwithstanding the fact that the borrower has the financial wherewithal to repay the loan. We believe the economic impact of the proposed change to the risk weighting of residential mortgage exposures would be real and would directly impact the consumers who need these loans that would otherwise not be available in their market.

Given the challenge to raise capital in the current environment, our alternative would be to curtail or limit lending on 1-4 residential loans. As a community bank we are a lifeline to many borrowers who depend on us for their borrowing needs. Many do not qualify for traditional mortgages and we fear the

ultimate implementation of this rule will limit the availability of credit due to the additional capital requirements resulting from the punitive risk weighting proposal. We do not believe it is the intent of the proposal to curtail or limit lending on 1-4 residential loans and we therefore suggest that the revised risk-weighting for residential mortgage loans be removed.

Risk-Weighting of "High Volatility Commercial Real Estate" Loans

The Standardized Approach Proposal for High Volatility Real Estate Loans ("HVCRE") is punitive in that commercial real estate projects related to acquisition, development and construction ("ADC") projects relies too heavily on the equity injected into the project as a sole determinant of risk. We currently have $54 million in ADC loans that will result in additional risk-weighted assets of approximately $28 million. This will require additional Tier 1 capital of approximately $2.4 million for CET1. We believe that the proposed definition of HVCRE ignores many risk mitigation techniques employed by seasoned commercial real estate lenders. As a result, the HVCRE definition should be more limited to take into account other risk mitigation techniques. Potentially this will drive banks out of future ADC projects, which will be an impediment to economic recovery. We oppose inclusion of this proposal for the reasons cited above.

Risk-Weighting of Past Due Exposures

We are concerned that the risk-weighting of past due exposures in the Standardized Approach Proposal ignores the existing processes by which Colony account for past due exposure. The Standardized Approach Proposal requires banking organizations to apply a 150% risk-weighting to certain loans that are 90 days or more past due or on nonaccrual status. We believe the risk inherent in past due assets is already reflected on the balance sheet and in the capital ratios of financial institutions under applicable accounting rules. When a loan is 90 days or more past due or on nonaccrual basis or in our methodology including classified loans that might not be past due or on nonaccrual, we test for impairment and make accounting entries accordingly to reflect any impairment. Under the Basel III proposal, this would increase our risk-weighted assets by approximately $16 million and would require additional Tier 1 capital of approximately of approximately $1.4 million for CET1. Given the current accounting framework, we believe that adding to the risk-weighting of past due assets constitutes double-counting of the risk of the assets. We submit that existing accounting rules address this issue of risk sufficiently and that this proposal should be removed.

Record-keeping Issues

In addition to issues cited previously regarding the risk-weighting of residential mortgage exposures proposed in the Standardized Approach Proposal, we are concerned that this will place a tremendous record-keeping burden on all financial institutions. Colony does not currently have systems in place to capture necessary data required with the proposal. Since the proposal does not "grandfather" loans in the existing portfolio, many manual hours will have to be spent to look at every loan to determine if it is a category 1 or 2 loan and then determine the loan to value ratio to determine the final bucket to place the loan for proper classification. We believe appropriate measures should be taken to ease this tremendous administrative burden.

In summary, we estimate the following direct impacts to Colony Bank from implementation of the Basel III rules as they are proposed:

1. Common equity Tier 1 will be subjected to volatility of approximately +0.60% due to the inclusion of

accumulated other comprehensive income. As of September 30, 2012 capital would increase by $663,000. Of concern is in an up 300 basis point shock scenario this moves to ($16.27 million), or a change of $17 million downward. This would result in approximately 14.7% reduction to our CET1 and is highly likely given the current low interest rate environment.

2. The phase out of TruPS will reduce capital $2.3 million per year for 10 years.
3. Risk-weighted assets for non-qualifying first lien and second lien mortgages will increase by $176 million.
4. Risk-weighted assets for High Volatility Commercial Real Estate will increase by $28 million.
5. Risk-weighted assets for Past Due Exposures will increase by $16 million.
6. Record-keeping issues will place undue and tremendous administration burden on the bank.

Should Basel III rules be implemented as proposed, total risk-weighted assets for Colony would increase from $703 million to $936 million, or an increase of 33.10%. This would be further compounded by additional increases in risk-weighted assets as we shift some of the abnormal large securities portfolio into the loan portfolio as the economy recovers. All of this adds additional capital requirements at a time when it is nearly impossible for community banks to tap the capital markets for a capital raise.

Basel III rules in our opinion were not designed for community banks and in fact are clearly punitive. The Proposals are too complex to be applicable to community banks and will likely curtail or limit lending for non-qualifying first lien mortgages and home equity loans and commercial real estate loans. This will only serve to restrict credit availability to creditworthy individuals and small businesses and will be an impediment to economic recovery. We are concerned that implementation of the Basel III proposals will negatively impact our ability to serve our customers and communities by requiring us to accumulate and hold additional capital above our current "well-capitalized capital position". We agree with FDIC director Thomas Hoenig that the entire Basel III proposal should be **scrapped** in favor of a more simple capital calculation based on tangible common equity ratios.

We very much appreciate the opportunity to comment on the Proposals and ask that you consider our comments prior to adopting the final rules.

Respectfully,

Edward P. Loomis, Jr.
President and CEO

Terry L. Hester
Executive VP & CFO