
From: Kathy Davis <kdavis@capitalbank-ga.com>
Sent: Friday, October 19, 2012 10:37 AM
To: Comments
Subject: BASEL III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

I am writing today on behalf of Capital Bank's management, Board of Directors and employees to share our concerns over the effects that the BASEL III capital proposals would have on our institution. Capital Bank is a family owned bank that has been serving our community in north Georgia for over 48 years. During these 48 years we have served as a business partner with families and business partners in our local community to fulfill their financial goals, yet we worry that the services we offer will be in jeopardy if the capital standards are implemented as currently proposed.

As CFO of the bank, I have performed analysis to the best of my ability to determine the financial effects of these standards. I will admit, as I am sure many other community banks will agree, that the data that is required to determine the most accurate effect of the proposals is not easily attainable without sophisticated software. The templates that were provided by the FDIC, while appreciated, were hard to decipher so I created my own analysis to provide you with quantitative data. The following concerns were noted after my analysis.

The BASEL III NPR proposes a change in the treatment of the gain and loss for available for sale securities. Currently, there is no effect on the Bank's regulatory capital as the gain or loss is deducted or added back to capital. Currently our bank has an excess of \$400,000 in unrealized gains. In my analysis, I did not use this gain in capital as I feel like it provides an inflated capital value. However, I must consider the fact that in periods of rising interest rates, that we all know must happen at some point, this value will be very volatile if it is required to be run through the income statement. This could mean, depending on the market, we could fall below well capitalized thresholds and not be allowed to pay dividends. Furthermore, the BASEL III NPR calls for the phase out of trust preferred securities. I believe, after reading the NPR and discussing with our accountants, we would not be affected by this due to our debentures being held at the holding company level which does not have capital requirements as a small bank holding company; however, the NPR is not clear on this. I did note, however, that TARP funds would be grandfathered in. It is only fair to community banks, most of whom did not have take TARP funds, be allowed to grandfather in existing trust preferred securities if exceptions are going to be made for TARP capital. Lastly, any changes to any bank's trust preferred securities should be based on the term of the underlying debentures, rather than an arbitrarily picked term.

The Standardized Approach NPR will be detrimental community bank customers as it targets the true types of loans that community banks can compete for. The increased risk weight factors for residential real estate and acquisition and development loans will require more capital to be reserved for these loans and will limit the loans we can do. Community banks cannot carry the interest rate risk of housing 30 year mortgages, yet the NPR will increase all currently held 1-4 family RRE loans from 50% to 100%. The acquisition and development loans are being increased from 100 to 150%. I understand the risk these loans carry and the contribution they have had on the current real estate crisis, but this is an example of a one size fits all approach that is not accurate. Our local market has not been hit as bad economically as many in the Atlanta region. We are less than 10 miles from Chattanooga, TN, an area that is seeing solid economic growth due to Volkswagen and Amazon facilities in the area, yet loans for well underwritten, solid cash-flowing projects, will have the same risk weighting as those for a speculative subdivision in a saturated Atlanta housing market. That makes no sense. Furthermore, let's look at what remains in the 100% risk weighted category. We are going to, by default, assign less risk to unsecured loans than we are good residential mortgages with balloon features or a good commercial real estate development projects with solid leases backing them up. That really blows my mind. With non-tax paying credit unions offering auto loans, consumers turning to credit cards instead of loans, big regional banks offering customers 3.5%, 15 year rates due to their ability to get good swap rates, what loans do regulators expect the little guys like us to make if these capital standards are imposed?

Using Call Report data as of June 30, 2012 and the best data I had available as far as LTVs, I estimate an increase of \$22MM and a decrease in risk based capital of 216 basis points. While it appears are still well capitalized on this proforma, I must consider the fact that June 30 numbers are based on a high liquidity position in 20% risk-based overnight fund assets and not in 50%, 100%, 150%, or 200% loans. I see loan growth being impossible teetering this close to the well-capitalized loan. Furthermore, my analysis does not include the effects of any loss positions on available for sale securities or dividends that would be needed to pay taxes for our shareholder since we are s corp.

Bottom line is this: these proposals should not be one size fits all. I haven't even discussed the costs of implementation as I can't even begin to quantify them. I understand the public and political pressure to prevent another banking crisis to happen as what has happened in recent years, but these changes are overkill to the little banks. I truly believe if these standards are implemented as presented, community banks will have no choice, but to sell off to the bigger banks, thus leaving the American consumers to deal only with the big banks with their high fees and leaving the community bank employees, like me, an addition to the staggering number of Americans without a job.

Thank you,

Kathy G. Davis
Vice President/Chief Financial Officer
Capital Bank
625 Battlefield Parkway
Fort Oglethorpe, GA 30742
706-866-9696



DISCLAIMER: This Electronic Message contains information from Capital Bank which may be privileged. The information is intended to be for the use of the addressee only. If you are not the addressee, or the employee or agent responsible to deliver it to the intended recipient, note that any disclosure, copy distribution or use of the contents of this message is prohibited. If you have received this Electronic Message in error, please promptly notify the sender by return e-mail.