



Oconee State Bank

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September 20, 2012

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

To Whom It May Concern:

Oconee State Bank takes issue with the inclusion of our "accumulated other comprehensive income" (AOCI). We currently hold all of our securities as available-for-sale since classifying our securities as held-to-maturity would cause other accounting issues. At the end of July, 2012, we had \$2,732,225 in unrealized gains in our portfolio which does not currently impact our capital ratios. In analyzing our rate shock on our portfolio, a +300 basis point move would shift us from an unrealized gain to an unrealized loss of \$7,518,000. This would drop our current common equity ratio from 14.37% to 9.70% which is an almost thirty two percent drop. Inclusion of AOCI in Tier One capital introduces volatility in periods of rapidly rising interest rates. At no fault of our own, under the Basel III proposal, we could lose our well-capitalized position. This is a reason to not require small banks like ours to be impacted by BASEL III

We also would like to express our concerns about the decision to categorize real estate loans that have balloons as a Category 2 which calls for a significant increase in the risk weight. For as long as we can recall, we have offered first mortgage real estate loans that has an amortization schedule based on a 15 to 20 year term but with a three year balloon. We find that we can manage our interest rate risk by keeping the rates fixed for three years. You need to understand that these are loans that we keep on our books and that these loans are being made to customers who may not fit in a conventional mortgage program. The BASEL III proposal would penalize our Bank for helping customer to buy a home. We do not believe that it is your intentions to throttle our ability to serve our customers, but this will most likely restrict our ability to make in-house owner occupied first mortgage loans. This is another reason to exempt small banks from BASEL III.

In addition, Oconee State Bank feels that you are being punitive in raising these capital requirements and not providing relief on the need for loan loss reserves. We believe that this is a double impact on us. We account for the risks in our loan portfolio by managing our loan loss reserves. Another example is the analysis that we perform on our impaired loans. We currently reserve 100% of those loans that are not adequately secured. A one hundred percent reserve is one hundred percent. Why should we set aside more capital? It appears that by requiring higher levels of capital and adding buffers on top that we will have two sets of reserves for the risks in our loan portfolio. We believe that our methodology for

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calculating our loan loss reserves allows us to maintain what is necessary to address any losses. We do not feel that we need both. This would restrict capital and impede the ability to help our customers.

We understand that you want to update risk weights to make them more sensitive to the economy, but we do not feel that you are considering the fact that your ability to accomplish that already exists.

We believe that you should give relief in requiring other methods of reserves if you are intent on adopting these new capital rules for small banks.

We are concerned that there will be unintended consequences if these requirements are required of small banks like us. We have solicited comments from our accountants, our lawyers, and our local regulators that would calm our fears, but none have been able to accomplish that.

In conclusion, Oconee State Bank strongly requests that community banks like ours be allowed to stay with the earlier BASEL accords. We do not believe that one size fits all when it comes to trying to rectifying what has transpired over the last few years. Your words say that you want community banks to remain a viable part of the equation, but your actions say different.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Amrey Harden". The signature is fluid and cursive, with a long horizontal stroke at the end.

B. Amrey Harden

President and CEO

Oconee State Bank