HomeBanc N.A.
www.homebanc.com

October 18, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20420
Delivered via email: comments@FDIC.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Delivered via email: regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Delivered via email: regs.comments@federalreserve.gov

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on notices of proposed rulemaking implementing the Basel III capital accords that the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency issued on June 12, 2012.

HomeBanc N.A. is a $525 million, OCC chartered bank established in 2007. We currently have seven retail branch and five loan production offices. As of September 30, 2012, HomeBanc had Tier 1 Leverage Capital of 8.07%; Tier 1 Risk-based Capital of 20.6%; and Total Risk-based Capital of 21.2%.

We are in favor of strengthening the quality and loss absorption safeguards in the financial institutions sector. HomeBanc's intention is to hold capital above the minimum required levels. While we support the proposed levels of capital, several areas are troubling and, in our case, perhaps unworkable as we are a small bank with limited access to capital. In fact for the most part, our capital increases only through the retention of earnings. Community banks, like HomeBanc, had little to do with the recent economic collapse which was largely created by the misuse of sub-prime loans made primarily outside the banking system and

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securitized by large investment banks and lenders. We are familiar with our clients and the risks of lending to them.

An area of concern is the inclusion of gains and losses on available-for-sale securities in the common equity Tier 1 computation. Currently, HomeBanc has a $10 million securities portfolio (U.S. Agencies, GSA-Issued MBS product, and high quality corporate bonds). While this is not a significant component of our balance sheet today, there may be a time when securities become a more significant component. By including unrealized gains and losses in the capital computation, it will discourage us from pursuing quality investments to manage interest rate risk and liquidity because even short duration investments will be adversely impacted when interest rates eventually rise. This adverse impact would reduce capital ratios and require us to reduce other core areas of our business such as lending. The risk of having to reduce core business areas due to the capital impact of an investment portfolio is not a risk we would readily accept.

Another area of concern in the computation of capital is the higher exclusion and higher risk weight of the deferred tax asset (DTA). Current regulatory rules already include limitations on the amount of net operating loss carry-forwards and temporary timing differences that are includable as capital. To implement new thresholds on amounts of includable DTA without regard to the amount determined to be realizable under existing capital rules is punitive at a time that banks are exiting difficult economic times and could benefit from these DTAs. Furthermore, risk weighting includable DTA at 250% reduces capital that could be used in lending in our community.

We also question the continued limitation on the amount of the Allowance for Loan Losses includable as Tier 2 capital to 1.25% of risk-based assets. We believe the total allowance is an allocation of capital and banks should be encouraged to build reserves with pre-tax dollars during good times. This artificial limitation of 1.25% of risk weighted assets provides a disincentive to continue to add to the allowance for loan losses.

The proposed rules regarding the risk weighting of residential mortgages will make mortgage loans more difficult to obtain in many markets such as those served by community banks (in particular the rule that automatically requires an adjustable rate loan which can adjust more than 2% within a 12 month period to be considered a Category 2 loan which carries a minimum 100% weight regardless of other credit characteristics). The proposed rule will limit this type of lending or cause us to increase the interest rates paid by our customers to offset the increase in capital required to be held. Mortgage loans held on our books (generally 5/1 adjustable rate loans which can adjust up to maximum capped rate at first adjustment period) are used as a tool to manage interest rate risk. We cannot "afford" to hold 30 year loans, especially in this interest rate environment, due to the inherent interest rate risk. Requiring higher risk rating of adjustable rate loans requires more capital, increases the cost of the credit, and will serve to reduce the availability of credit.

We also feel that increasing the risk rates on delinquent loans is redundant. Delinquent loans are already considered in our Allowance for Loan Losses analysis. Banks are already

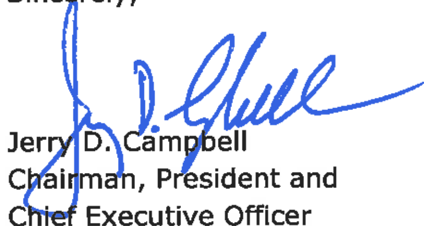
highly regulated in this area and are criticized if we do not adequately recognize the need for capital or reserves to mitigate these possible future losses. Further, this could impact how we work with the borrowers to remediate delinquency issues; we would have less incentive to work with our borrowers because of the adverse impact on our capital ratios that the long timeframe for successful credit workouts require. In short, this redundancy is unfair and unnecessary.

The scope of the proposed rules and interpretation needed to implement them is extremely complex for non complex banks such as ours. Most small banks do not have staff or computer systems than can generate the granularity to report under Basel III. It will require the collection and reporting of new information in order to calculate the risk weights for HomeBanc. We will likely either need to acquire new software or outsource the project to a third party. Either way, the proposed rules will cause us to incur new costs and greatly increase our regulatory burden. In addition, some rules seem arbitrary. For example, residential mortgage loans that are required to be risk weighted by a minimum of 100% or more if the interest rate can increase by more than 2% in a 12 month time frame while commercial loans that are adjustable rate with no annual cap have no such restriction.

Finally, HomeBanc believes that the cumulative effect of each of the items discussed above will have a significant negative impact on us, and most of the community banks in this country and our clients. We strongly urge you to consider this impact and to consider a possible exemption for most of the country's community banks from the bulk of these rules. HomeBanc's goal, and that of all community banks, is to continue to serve our communities and to strengthen our local economies.

Thank you for your consideration.

Sincerely,



Jerry D. Campbell
Chairman, President and
Chief Executive Officer

CC: Alex Sanchez, Florida Banker's Association