FIRST CHATHAM BANK
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October 3, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

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.

I am president of a $490 million community bank located in coastal Georgia. We are a traditional community bank that cares deeply about our customers and our employees. Our area has been hit hard by the real estate (and economic) downturn and is just now showing signs of recovery. Our bank has weathered the storm so far and is about to close a transaction that will shore up its capital position to the adequately capitalized levels. We have worked very hard with the regulators in the areas of safety and soundness, compliance and other regulatory compliance and are told that we are headed in the right direction. The 72 employees of our bank are committed to helping our community grow and recover, and without our community bank providing commercial, small business, home and consumer loans our community would suffer. I am highly concerned about the effects Basel III will have on our ability to continue supporting the economic development opportunities in our community.

My first area of concern has to do with the provision requiring all banks mark to market their available for sale securities. Our bank has a very conservative investment philosophy. Our portfolio is currently about $43 million and is made up primarily of fully government backed agencies. These investments have little, if any, risk of loss, but are subject to interest rate risk, which we manage very closely. At present time during a period of historically low rates, we have a positive market value adjustment in our bond portfolio of $450,000. Shock testing our portfolio indicates that a 300 point increase in interest rates would create about a $3.3 million change in market value adjustment and dramatically decrease our capital under Basel III. After all our hard work and the initial improvements in the local economy, we anticipate our Tier 1 Capital at September 30, 2012 to exceed the 4% adequately capitalized level. Based on the 300 basis point increase in interest rates, the Tier 1 Capital would drop below 4% and would be further cause for regulatory scrutiny and would reduce lending. This adjustment to capital is made even though nothing changed other than the interest rate environment.

Another concern is how capital relates to our legal lending limit. Generally stated, a bank's lending limit goes up and down as capital goes up and down. In smaller banks such as ours, we have many customers who borrow close to our current legal lending limit. Under the scenario explained above, the significant drop in capital of nearly $3.3 million would have the effect of lowering our legal lending limit by a significant amount. This would leave us vulnerable to losing customers to larger financial institutions and thereby reduce our income and our ability to replenish capital through retained earnings.

My next area of concern addresses the change in capital requirements on mortgage servicing assets. We are in the process of selling our SBA loan originating subsidiary and most of the servicing assets will go with it. However, as we look to the future, we plan to leverage our existing staff and experience by originating government guaranteed loans ourselves and produce additional income to improve our capital position. The Basel III proposal could eliminate this as a potential revenue source for our bank and many other banks. We request that banks be allowed to include 100% of the fair market value of mortgage servicing assets.

My next concern deals with the increased risk weighting on delinquent loans. The real estate downturn has caused our bank, like many others, to work with borrowers and hold loans in past due and non-accrual status for some time. In our bank's case, we minimized our risk of loss by carrying a larger balance in our loan loss reserve. The proposal of increasing the risk weighting on past due loans has the double effect for most banks of decreasing capital while at the same time we are holding large amounts in our loan loss reserve. I feel that managing the loan loss reserve is a more prudent and effective way of handling this situation.

My final concern addressing Basel III is the overall complexity required to interpret and follow the rules. Most of us in community banks don't have staff or computer systems that can generate the granularity needed to report under Basel III. Even if the effect over time of Basel III does not require significant changes in capital it will certainly require additional expense on the part of our bank and the banking industry.

My hope is that you will reconsider the impact on community banks of the accounting requirements of Basel III. The long term effect of Basel III could very well be the end of community banks that do so much for their customers and communities.

Sincerely,

Brian R. Foster

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President & CEO
First Chatham Bank
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cc. Whitney C. Thomas (via email) WhThomas@FDIC.gov