TNB

Thomasville National Bank

October 22, 2012

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

Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
250 E. Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219

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

Re: Basel III Capital Proposal

Ladies and Gentlemen:

In 1995, we formed Thomasville National Bank because we knew our community needed a local bank. Our growth and financial performance has far exceeded that of our competitors during the recent banking crisis. During the crisis our institution was able to continue making loans and working with customers to help them weather the economic storm. We have always been there when our community needed us the most and are committed to be a catalyst to help Thomasville and Thomas County prosper in the future. Our institution is locally owned by individuals in the Thomas County area. These individuals are also long term customers of the bank.

Many institutions have written very compelling commentary stating why the proposed capital changes will negatively affect the community banking system. The major effects this proposal will have on our institution are the effects of the changes in risk weighting to our total Risk Weighted Assets.

Thomasville National Bank has always strived to service our community; therefore, a large portion of our loan portfolio is comprised of loans secured by 1-4 Family residential properties. The most damaging Basel component to our institution is the new risk emphasis on 1-4 family residential real estate lending. As of June 30, 2012, the Bank had 38.95% of our loan portfolio secured by such collateral as reflected in our FFIEC Call Report Schedule RC-C- line item I.c. The Basel Definition of "Category 1" treatment for first lien 1-4 family residential real estate loans clearly specifies that a balloon payment arrangement does not qualify for Category 1 status for risk-weighting purposes, but that is how almost all Georgia community banks, including ours, structure their mortgages loans that they keep on their balance sheets. Community banks do not generally book any "classic" 15- or 20- or 30-year mortgages. We use those amortization schedules, but with a 5-year or 3-year balloons. This balloon payment practice reflects our efforts to manage long-term interest rate risk, and to re-appraise and possibly re-price the credit at appropriate intervals. Community banks have limited access to long-term noncore funding that larger financial institutions enjoy, and our regulatory authorities strongly discourage reliance on noncore funding sources to any material degree. Small community banks are expected to be self-funding through local deposits. Community banks also have a tendency to take real estate on many credits as extra collateral in an abundance of caution. Because of the balloon feature we use, our entire first lien residential portfolio will be classified as "Category 2" along with our second liens and home equity lines. Additionally, our institution does not have the manpower to offer escrow to our customers. As a result of the Dodd Frank Act, our use of the balloon structures on mortgage loans allows the Federal Government to dictate the amount of interest we can charge our customers on mortgage loans. This amount of interest is based on average mortgage prices in the industry and has nothing to do with risk of the borrower. In essence, indicating that the mortgage loans carried on our books are the least risky loans in our portfolio. This is highly contradictory to the proposed capital guidelines.

The Bank will also be negatively affected by the proposed Loan-to Value (LTV) tables on residential loans. Both Category 1 and Category 2 loans under Basel III proposals are subjected to a tiered set of risk-weights based on the underlying LTV ratios. Category I loans are subjected to an LTV table varying from 35% to 100% risk-weighting. The Category 2 loans (including all non- Category 1 first liens, second liens, and home equity lines of credit) turns into a large category for community banks due to the balloon payment issue discussed above. Category 2 loans are subjected to graduated risk-weightings that can go up to 200% of the loan amount based on an LTV table that runs from below 60% of value up to past 90% of value — the higher the LTV, the higher the risk-weighting assigned.

In today's environment, appraised real estate values are severely depressed. Foreclosure activity, FDIC assisted closures of banks; FDIC clearing practices on assets requiring liquidation, and the operation of loss share programs in our immediate markets have devastated real estate values. We expect this to continue until the cycle clears. Economic conditions will cause our LTV tier totals to be at or near the top of the Basel tables, causing punitive increases to our risk-weighted assets.

Under the proposed capital requirements of Basel III, our institution will be severely penalized by offering our current mortgage products to our customers. We worked together with accountants to measure the effects Basel III will have on the Bank Capital Structure.

As of June 30, 2012, our Bank's Tier 1 Leverage Ratio was 9.09% and our Total Risk-Based Capital Ratio was 13.15%. Based on our 6/30/2012 pro-forma modeling and internal record-gathering, we estimate that the fully phased-in Basel Ill requirements would cause our Total Risk-Based Capital Ratio to decline to 9.45%, and our Total Risk-Weighted Assets would increase by a staggering 45.30%, from $365,439,000 to $531,084,000 under Basel rules. The increase in Total Risk-Weighted Assets surpasses the Bank's Total Earning Assets of $467,862,000 and Total Assets of $486,482,000. In no event should the Bank's Total Risk Based Assets ever exceed Total Assets.

The Basel III proposals for community banks across the country are misguided and will result in serious unintended consequences. We are very concerned about the capital additional capital requirements for our Bank demonstrated by our pro-forma modeling, the negative impacts on our ability to provide residential mortgages to our local markets, the difficulty of small community banks to attract capital now and in the future, and the increased compliance and regulatory burdens. Basel III will compromise our ability to offer the reasonably priced products our local consumers and small businesses need and can only act to forestall the economic recovery that the country now seeks.

Sincerely,

Ivan E. Crocker
Vice President
Chief Credit Officer