THE BANK OF PERRY

October 16, 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, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Mr. 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 issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

The Bank of Perry in Perry, Georgia is a traditional community bank established in 1889, currently with $112 million in assets, serving Houston County from two full service banking offices in Perry and Warner Robins, Georgia. We are one of four Georgia subsidiary banks of Persons Banking Company, Inc., a $386 million closely-held Subchapter S bank holding company based in Macon, Georgia.

Let me say at the outset that I believe I have a good understanding of the issues surrounding the creation of Basel III. While application of Basel III may be appropriate for large institutions that engage in MBS underwriting and complex international bond activities, its application to small, non-complex community banks would be ill-placed at best. U.S. banks of our size had nothing to do with the circumstances leading to the creation of Basel III, and indeed, its application to small banks would seriously inhibit many banks' ability to continue to actively lend, particularly on 1-4 family residences. Based on our pro-forma modeling for fully phased-in Basel rules on loan accounting only, if

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implemented as proposed, Basel III would negatively lower my Bank's Total Risk-Based Capital Ratio from 10.45% (6/30/2012) to 8.58%. This is largely due to segregating 1-4 family loans that have balloon payments into a separate "Category II" in which the RBC requirement is roughly tripled. This comes in a time of great scarcity in capital, as well.

Additionally, while not an issue today, is the risk that Accumulated Other Comprehensive Income (AOCI) represents to capital ratios. My Bank's investment portfolio is roughly $15 million, and today carries a gain of about $87,000. A 6% decline in in the portfolio value would require $1 million in additional capital under proposed Basel III. In today's low rate environment, once rates do begin to rise, a 6% decline in portfolio value is quite conceivable. Based on current numbers, were that to occur today, my Bank's Total Risk-Based Capital would decline further to 7.54%.

In meetings with several of my Georgia bank peer CEO's, using real data we estimate an average 25% hit in community bank capital across Georgia. In the current economic environment, if Basel proposals stand on the treatment of 1-4 family residential real estate loans, we must seriously consider withdrawing from product offering or pricing higher to cover new capital demands, and community bank clients will suffer. Another perhaps unanticipated consequence is recent tightening of FNMA underwriting standards that has resulted in that source of credit literally drying up in many rural areas. Not only would the capital impact impede credit, the cost of accurately measuring capital requirements would add significantly to the compliance burden community banks already deal with. Another point the authors of Basel III are most likely not aware of is that community banks largely do not have full time people dedicated to compliance activities – we wear many hats.

In summary, I urgently recommend that Basel III not be implemented in small non-complex community banks.

Sincerely,

Kelly G. Hillis
President & CEO

KGH/hmf