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October 17, 2012

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[1] 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. First Landmark Bank is a $185 million community bank based in Marietta, Georgia (part of the Atlanta MSA). We opened in March 2008 and currently have 28 employees. We compete directly with the largest United States banks, regional banks, other community banks and thrifts and credit unions.

The proposals would increase the minimum levels of required capital, narrow the definition of capital, and increase the risk weights assets for various asset classes. If implemented, the Basel III proposals will restrict our ability to serve our local communities through growth and increased lending activities.

The following comments reflect our concerns regarding the proposed rules and, where available, estimates of the specific impact on First Landmark Bank:

Applicability of Basel III to Community Banks

Community banks should be allowed to continue using the current Basel I framework for computing their capital requirements. Basel III was designed to apply to the largest, internationally active, banks and not community banks. Community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. Community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The additional complexity and resources necessary to comply with the proposed capital requirements is yet again another burden placed on small community banks.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Incorporating AOCI as Part of Regulatory Capital

Inclusion of accumulated other comprehensive income (AOCI) in capital will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for our bank represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. Recently, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. Additionally, demand for many implicitly and explicitly government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. This increased demand has caused credit spreads to tighten further, resulting in increased bond valuations. Interest rates have fallen to levels that are unsustainable long-term once an economic recovery accelerates. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct and immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At our bank, for instance, if interest rates increased by 300 basis points, our bank's bond portfolio would show an unrealized loss of $3.7 million as compared to an unrealized gain of $1.8 million at current rates. Under the proposed rules, this would cause a net decrease of $3.1 million in capital from current levels. This would mean that my bank's tier one ratio would drop by 15%, from an estimated proforma of 11.64% to 9.89%. This significant impact occurs despite positioning our portfolio to protect against rising rates by having a duration of slightly over 2. It is particularly punitive in that it does not allow marking to market value any other assets or liabilities of the bank.

The proposed rule should be revised so that unrealized gains and losses on AFS securities that reside in AOCI do not flow through capital.

Capital Conservation Buffers

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal and therefore should not be implemented. Many banks will need to build additional capital balances to meet the minimum capital requirements with the buffers in place. Community banks do not have ready access to capital that the larger banks have through the capital markets. The only way for community banks to increase capital is through the accumulation of retained earnings over time. Due to the current ultra low interest rate environment, community bank profitability has diminished further hampering their ability to grow capital. If the regulators are unwilling to exempt community banks from the capital conservation buffers, additional time should be allotted (at least five years beyond 2019) in order for those banks that need the additional capital to retain and accumulate earnings accordingly.

New Risk Weights

The proposed risk weight framework under Basel III is too complicated and will be an onerous regulatory burden that will penalize our bank and jeopardize the housing recovery. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize us and decrease our ability to offer these loan products to our customers and deprive customers of alternative financing options for residential property. It primarily is dependent on collateral values without regard to sound credit underwriting and other factors. Additionally, higher risk weights for balloon loans will further penalize our bank for mitigating interest rate risk in our asset-liability management. Second liens will either

become more expensive for borrowers or disappear altogether if we choose not to allocate additional capital to these balance sheet exposures. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans. Furthermore, community banks will be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages.

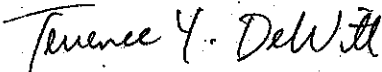
Under the proposed rules, "Highly Volatile Commercial Real Estate" (HVCRE) loans, as defined, would require a 150% risk weight. In our bank, a large component of acquisition, development and construction loans are made to customers for owner-occupied properties. In these cases, the borrower is underwritten based on their overall global cash flow and appropriate debt service coverage ratios from the underlying performance of their business. Once again, it is punitive to assign a higher risk weighting to these type loans and would restrict our ability to make these loans or cause us to increase pricing to the borrower to compensate for the increased risk weight.

Under existing rules, the risk-weight of a loan does not change when the loan becomes delinquent. Instead, the additional risk is addressed through the Allowance for Loan Losses. The proposal would change this approach significantly assigning nonresidential loans over 90 days past due a risk-weight of 150%. This approach is counter-cyclical and ignores the impact of increasing specific reserves for problem loans. In addition, the proposal does not address the current disallowance of reserves in excess of 1.25% of risk-weighted assets. As proposed, this provision could impact our willingness to work with a customer on a workout basis, instead requiring us to proceed directly to foreclosure and liquidation of the asset.

The aggregate impact of these proposed rules on our bank will have a detrimental effect on the availability of credit in our community and result in a significant impact on economic growth and job creation. Further, it will continue to lessen our ability to remain competitive with both banking and nonbanking competitors.

Respectfully,

Ronald H. Francis
Vice-Chairman and Chief Executive Officer



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