BROOKHAVEN BANK

October 22, 2012

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

Re: Basel III Capital Proposals

Dear Mr. Feldman:

Thank you for the opportunity to provide comment on the Basel III proposals[i] 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. Brookhaven Bank (the "Bank") is a state-chartered community bank in Atlanta, Georgia with an asset base of approximately $175 million. The Bank was chartered in August 2007 and has successfully survived the economic downturn of the past three years which resulted in our state leading the nation in bank failures. The Bank is focused on building and growing relationships with small businesses. The Bank's lending staff averages over 20 years of experience in commercial lending to small businesses. We believe the Bank is a prime example of the value of community banking: to play an integral role in the success of small businesses in our community.

Since the announcement of the Basel III proposals, we have gathered the appropriate information to perform pro forma calculations to analyze the impact to the Bank's capital. We used two different models to analyze the Basel III proposals: the calculator provided by the FDIC and a template developed by a bank advisory group. The results from the two models were almost identical for the Bank's pro forma capital ratios and the Bank remained well-capitalized in the projected scenarios. However, a significant number of assumptions were used in determining the level of detail required in the new proposed calculations. In reviewing the time and data system considerations required in compiling the data, the Bank believes that the Basel III proposals are not appropriate for community banks.

One of the complicating features of the Basel III proposal is the new risk weight framework. The

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increased risk related to residential mortgage loans is a disincentive for community banks to offer these products. This further impairs the housing recovery and creates a market where only the largest banks can absorb the overhead and compliance costs necessary to offer residential mortgage loans. Wells Fargo already originates 1 of every 4 residential mortgages in the US due to the compliance burdens imposed through the Dodd-Frank Act and the SAFE Act. There will be no valid reason for a community bank to make a home equity line of credit based on the risk weight requirements. Further, the pricing to consumers will make this product a loan of last resort (if appropriately priced according to the regulatory risk weight required in Basel III). The risk weight factors in Basel III require assumptions and estimates in order to calculate pro forma results because the current accounting systems do not house the level of detail required by the proposed rules. Significant investments will have to be made (which require significant lead time) in order to upgrade bank processing systems to track the data necessary for the Basel III calculations.

In the current capital adequacy framework, Call Report data is provided that allows independent calculation of any bank's capital ratios. Based on the amount of data required to calculate capital ratios under the Basel III proposals, the Call Report data submission will double in size or no longer present data points for independent calculation of capital ratios. The data requirements are too expansive and detailed to provide publicly through the Call Report system without adding a significant number of pages to the reporting process. This adds complexity to the Call Report process without adding value to the capital adequacy of community banks.

The inclusion of the Bank's accumulated other comprehensive income (AOCI) in the Basel III proposal adds a volatility factor to bank capital ratios that is counter to the industry and regulatory goals of stability. The AOCI component for most banks in the US is currently reflecting an unrealized gain on the market valuation of securities. With the current zero interest rate environment, this component will shrink as rates begin to rise in the future. Banks will be penalized for holding bond investments instead of treating the investment portfolio as a trading pool. In a community bank, the investment portfolio is not typically used as a trading platform. The market valuation of the Bank's portfolio with a 300 basis point increase in rates results in an unrealized loss of approximately \$2 million (on a total capital base of approximately \$20 million). This adds a layer of uncertainty that is counter to the intent of most community banks in holding government agencies and municipals to provide a steady stream of income and cash to instead managing the market valuation impact of investments. This is not the focus of community banking, nor does this hedging expertise exist in most community banks.

The capital conservation buffers create another obstacle for community banks. The access to capital markets is limited for most community banks. The primary source of additional capital for most community banks is consistent earnings which are accumulated and retained in capital over time. Due to the historically low interest rate environment, most community banks are struggling to maintain acceptable net interest margins, grow loans, and as a result grow capital. In the past, the primary avenue for new capital for community banks was the addition of new board members who brought in capital and represented their investment on the board. In the current environment of regulatory lawsuits, the ability of community banks to generate new capital (or add new board members) is almost non-existent.

In summary, the Bank believes that the application of Basel III requirements on community banks is unnecessary to monitor, manage and ensure capital adequacy. The data collection is onerous and time-consuming under the new rules, the inclusion of AOCI adds volatility to the process, and the capital conservation buffer creates another obstacle to generating capital for community banks that are already at the end of the line as an investment alternative in capital markets.

We respectfully ask that community banks be exempt from the Basel III rules as currently proposed. Please let us know if we can provide additional information.

Sincerely,

Jane Skelton
Chief Financial Officer

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[i] 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.*