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

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments / Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I am writing you today 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.

As an Assistant Vice President with The First National Bank of Talladega located in Talladega, Alabama, I am keenly aware of the demands and challenges currently facing community banks in our nation. Community banks are in a unique position to meet the needs of small businesses, local families and farmers that the megabanks consider to be insignificant. However, the Basel III proposals could seriously jeopardize the ability of community banks to continue to operate and meet those needs that are vital to the sustained growth of our economy.

I assert that community banks should be allowed to continue using the current Basel I framework for determining capital requirements. Basel III was designed to apply to the very largest banks. Community banks did not engage in the risky activities that depleted capital levels at many large banks. The business model most community banks operate in places emphasis on long term relationships in the communities in which we serve and use a common sense approach to risk management. Large banks care little for developing relationships in communities and instead focus on a large volume of impersonal transactions spread across a vast, often nationwide or even international, service area. This difference shows the need to place tougher standards on the largest banks to better manage their ability to absorb losses.

Some of the ways that Basel III could harm The First National Bank of Talladega or other community banks include:

- The inclusion of other comprehensive income (unrealized gains and losses on available-for-sale securities) in regulatory capital for community banks will result in increased volatility and could rapidly deplete capital levels under certain economic conditions. When interest rates inevitably rise, fair values will fall causing the unrealized gains currently being experienced by most community banks to decline and become significant unrealized losses. Community banks, unlike most large institutions, do not have the knowledge or expertise to engage in hedge accounting transactions that might mitigate the risks of capital volatility.
- Capital conservation buffers will be difficult to achieve under the proposal and could further hamper the ability of banks to grow and serve the needs of their communities. The only way most community banks increase capital is through the accumulation of retained earnings over time. Profitability has decreased due to the ultra low rate environment, further hampering the ability of community banks to increase capital. The proposed buffers should not be implemented or community banks should be exempted.
- The proposed risk weighting is too complicated and will be a heavy regulatory burden that will penalize community banks and jeopardize the housing recovery. The result of the risk weighting would be the end of residential balloon loans and community banks would be forced to originate only 15 or 30 year mortgages that would make their balance sheets more sensitive to changes in long-term interest rates. In fact, many community banks will exit the residential market altogether or only originate loans that can be sold to the secondary market if the proposal is implemented. It is common sense that community banks be allowed to stay with the current Basel I risk weight framework.
- Community banks would be forced to make significant, costly software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine proper risk weight categories for mortgages.

Thank you for the opportunity to provide comment on the Basel III proposals. Your careful consideration of the issues raised for community banks by this proposal is also greatly appreciated.

Sincerely,

Chad M. Thomas
Assistant Vice President
The First National Bank of Talladega