



# Pineland State Bank

October 22, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> St and Constitution Ave, N.W.  
Washington DC 20551

Office of the Comptroller of Currency  
250 E Street S.W.  
Mail Stop 2-3  
Washington DC 20219

Robert E Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street NW  
Washington DC 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 approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am Vice President and Chief Credit Officer of a \$58 million community bank in Southeast Georgia. We are traditional community bank which participates not only in the economic success of our community, but also in its social and community efforts. We care deeply about our community, customers and employees. We have 22 full time employees and currently operate three branches. Due to pressures arising from troubled assets and the economic downturn, we will be closing one of our branches at the end of the year. Our bank is one of five which serve Candler County, Georgia, which has a population of just under 25,000 residents. We believe that we are an integral part of the community and without our bank providing home loans, small business lending, agricultural loans, and consumer loans the community as a whole would suffer. As a community bank we are able to tailor our lending structure and repayment requirements to fit the needs of our customers. I

---

P.O. Box 178  
Metter, GA 30439  
(912) 685-2195  
FAX (912) 685-4521

P.O. Box 10  
Cobbtown, GA 30420  
(912) 684-2130  
FAX (912) 684-4602

[www.pinelandbank.com](http://www.pinelandbank.com)

am very concerned that aspects of the proposed changes to capital will have a negative effect on our continued ability to serve our community.

In 2010 our bank signed a Consent Order with FDIC and the Georgia Department of Banking and Finance. For the past two years we have worked diligently to meet the requirements of the Order and to return high marks in safety and soundness and compliance. As you know, the additional regulatory pressures which resulted from the Dodd-Frank Act and other regulatory changes have placed exceptional demands on the banking industry. The challenge of reducing non-performing assets, maintaining adequate capital, compliance with new regulatory guidelines, and adjusting to new procedures has been arduous.

After reviewing the proposals I believe it is difficult for the agencies to develop a plan which is “one size fits all”. The implementation of several provisions of the Dodd-Frank Act took this approach. In many cases this had a negative effect on smaller community banks’ ability to serve their customers. In effect, the provisions made it either not cost effective or too dangerous from a compliance standpoint to offer certain product lines. This resulted in a reduction of services available to businesses and consumers in many cases. I fear that implementation of the proposed rules will change the way community banks view certain transactions and product types and will encourage them to avoid those types of services; thereby having a negative impact on customers.

There are several of the proposed rules which we believe will negatively impact our ability to provide services to our customers:

**Accumulated Comprehensive Income (AOCI) as a component of Tier 1 Capital** – Our bank currently has a basic investment portfolio with approximately \$2.2 million in investments. These investments have traditionally been accounted as held to maturity rather than available for sale. We believe that we will continue to utilize this method of accounting, but believe that the requirement to include AOCI in Tier 1 capital introduces a level of volatility to capital that is unwarranted in community banks. The securities portfolio is the best tool that a small bank has to reduce asset sensitivity, match maturities and reduce interest rate risk. The proposal introduces a level of complexity that we feel is unwarranted.

**Residential Mortgages** – We are concerned that the treatment of residential mortgages, including basing the risk weighting on underwriting criteria and LTV introduces an undue penalty and complexity to this segment of a community bank’s loan portfolio. The majority of our bank’s 1-4 residential loans are structured with balloon payments after 3 years in order to reduce the bank’s

interest rate risk. Under the proposal, this structure would penalize the bank by increasing the risk weight of the asset. Under the proposal we would have to evaluate whether the additional risk weight outweighs the potential value of the loan and whether to continue to generate loans in this segment. In addition, the proposal would require additional risk weighting to a residential mortgage which did not meet certain LTV criteria. These criteria do not allow for the substitution of additional collateral in order to bring the loan to the LTV threshold unless it is an injection of cash or equivalents. This seems unduly burdensome on local borrowers who have substantial assets, but, due to the current economy, reduced liquid assets.

While we understand that 1-4 family residential mortgage lending was a source of substantial weakness in some larger banks and mortgage originators, our position is that this segment does not represent undue risk to a smaller community bank. We have experienced very low loss ratios in this segment. However, there has been substantial change to the regulatory pressures put on this segment by the Dodd Frank Act and the advent of Section 32 (Higher Price Mortgage Loans) regulations. We believe that adding a further regulation in this area will only serve to push community banks further away from this type of lending and reduce our ability to serve our community.

**Risk Weights** - While the entirety of the new risk weight structure has its pluses and minuses, we believe that the structure will require substantial review prior to full implementation and approval. In its comment letter, the Georgia Banker's Association notes that, "for category 2 exposures the risk weighting for loans with an LTV ratio of more than 80% and less than or equal to 90% is 150%, and the risk weighting for category 2 exposures with LTV ratios in excess of 90% is 200%. In contrast, the risk-weighting applied to an unsecured consumer debt is 100%." Like the GBA, we fail to see how an underwritten and secured 1-4 family residential loan could carry a higher risk weighting than an unsecured loan. We concur with the GBA that the highest risk weighting which should be attributed to a 1-4 family residential loan is 100%.

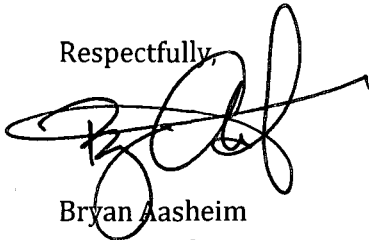
**Regulatory Burden** - We also believe that the proposal continues to place undue compliance pressure on community banks. In order to comply with the provisions of the proposal, the bank will need to devote additional technical and personnel resources to upgrade computer systems and change tracking systems in order to capture the required information. This will put undue stress on our ability to generate income and increase our capital, and soundness, through earnings.

Although my bank is very small even by community bank standards I believe that our struggles are representative of those felt by community banks throughout Georgia and the United States. I

believe that there is no proposal which will be able to legislate responsible practices without damaging the industry's ability to provide services to its community and help encourage economic growth. My bank's mission is to provide financial resources to our community and help it grow. I believe that the acceptance of the proposal will significantly reduce our ability to make a meaningful contribution.

I respectfully request that you consider the implications of accepting a proposal which makes no distinction between the largest mega-banks and the community bank next door. I hope that we can all agree that one size does not fit all in this regard. It is my request that you consider an exemption for community banks less than \$10 billion in assets. If this is not attainable I would request that the agencies postpone approval of the proposal and conduct further study and review into the impact acceptance would have on the community banking industry.

Respectfully,

A handwritten signature in black ink, appearing to read 'Bryan Aasheim', written over the word 'Respectfully,'.

Bryan Aasheim  
Vice President