CHATTAHOOCHEE BANK of GEORGIA

October 18, 2012

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 Proposal and Standardized Approach Proposal

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").

First, let me acknowledge the Comment Letter issued by the Georgia Bankers Association dated October 12, 2012. I agree fully with the comments expressed by that letter, although our bank will not suffer all of the impacts described.

Chattahoochee Bank of Georgia is a $95 million asset community bank located in Gainesville, GA. The bank was chartered in the midst of the recent downturn in September 2008, and we quickly realized that we were in abnormal times. We have grown loans much slower than we originally projected and have focused on credit quality and capital preservation as our strategic imperatives. As a result, we are very well capitalized (20.5% leverage ratio). As a community bank, our primary lines of business are providing loan and deposit services to individuals, professionals and small businesses. We are currently in the approval process to provide mortgage origination.

I have read the new Basel III and Standardized Approach requirements, and it is apparent to me that these new capital regulations designed for managing systematic risk in large financial institutions actually increase risk in community banks. It may also restrict access to mortgage loans that do not meet the evolving secondary market requirements.

By having a higher capital requirement for balloon notes, Basel III will encourage smaller banks to take more market risk by funding longer term mortgage loans with short term funding. We all know that this funding practice was the primary reason for crippling the savings and loan industry in the 80's and 90's. The capital requirements assume that LTV and balloon notes are

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the only measures of risk. There is no consideration for ability to pay (DTI) or credit scores in the process which will encourage community banks to take on more credit risk.

Furthermore, the proposal requires banks to hold additional capital for mortgages sold into the secondary market that contain early default clauses. When we began the process of entering the mortgage market, we never expected to have to account for additional capital reserves due to this provision.

While we are currently very well capitalized, the proposed capital requirements will limit our growth when economic conditions improve. Specifically, the inclusion of Other Comprehensive Income in the capital measures will result in our bank having to provide an additional capital cushion for potentially extreme swings in value on securities whether or not we sell them.

While either the Basel III proposal or the Standardized Approach proposal, taken alone, would have a significant impact on community bank management practices, the combination of the two proposals results in my wondering why community banks are being penalized for the failures of much larger banks. Regardless of the impact to our relatively high capital levels, the impact of additional reporting and tracking requirements will be a cost drain to smaller institutions like Chattahoochee Bank of GA.

Respectfully,

C.J. (Jody) Lail, Jr.
President & CEO
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