HIGH POINT BANK

October 12, 2012

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

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

High Point Bank and Trust Company appreciates the opportunity to provide comment on the Basel III proposals that were recently approved by Federal banking agencies. We are supportive of the agencies' objective of further strengthening the safety and soundness of the United States banking system.

Our Bank is a 107-year old independent state-chartered bank with assets of $800 million, serving the Triad area of North Carolina. Our primary federal regulator is the FDIC. We specialize in providing financial services (commercial and retail banking, trust and brokerage services, property and casualty insurance and employee benefit products) to individuals and small to mid-size businesses. We are providing this letter to you to convey our comments on the proposals.

We will address two areas that will directly impact our Bank as well as all community banks.

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Accumulated Other Comprehensive Income (ACOI)

As drafted, the proposals would end the practice of excluding items included in AOCI from regulatory capital. AOCI for our Bank includes unrealized gains and losses on investment securities classified as available for sale (AFS) and defined benefit pension plan adjustments.

Regarding the component of AOCI related to unrealized gains and losses on AFS securities, we request that the Agencies maintain the current practice of excluding these amounts from the calculation of regulatory capital, for the following reasons:

- To avoid recognition of AOCI, we would be incentivized to move investment securities to the held to maturity (HTM) category, thus greatly reducing our ability to properly adjust our portfolio for liquidity and funds management purposes. While this move helps our capital calculation, it creates differing capital treatments for AFS and HTM securities, even though the relative risks involving the investment securities are the same.
- To avoid capital ratio volatility, we would be inclined to make shorter-term investment decisions that reduce the volatility and increase liquidity. This may help to reduce market risk, but it also could reduce the ability of the investment portfolio to produce income and generate capital appreciation.
- The AOCI inclusion for AFS securities applies mark-to-market treatment to only one set of financial instruments on our balance sheet. We have funding liabilities that also have market valuations that go in the opposite direction. For example, we currently have a $5.9 million unrealized gain in our investment portfolio; our borrowings have a $4.1 million unrealized loss. In a rising rate environment, both the unrealized gain and loss would be reduced, but under the current proposal, only the change in the investment portfolio impacts our capital ratio.

As a final thought on the ACOI issue, one of our investment banking partners recently prepared an analysis where they studied net *unrealized* gains and net *realized* gains on AFS securities in US banks from 1993 (the year the FASB adopted SFAS 115) until 2011. What they found was "…while net *unrealized* gains are volatile, net *realized* gains are remarkably stable over time at a fractional amount of *unrealized* gains. What emerges from this analysis is a persuasive portrait of banks that do not trade securities in their AFS portfolios, but rather, generally hold them for the collection of contractual cash flows. Such sales as do occur likely reflect prudent management practices, including portfolio rebalancing and the defensive sale of rapidly paying mortgage-backed securities." (1)

Risk-Weighting of Certain Loans

Risk-weightings on certain loans are changing, becoming more granular and taking into account purpose and structure.

(1) Sandler O'Neill Partners, LP

Under the proposals, risk-weightings on residential real estate loans range from 35% to 200%. These new weightings will be detrimental to our capital calculation, and could potentially curtail certain mortgage lending products we offer to consumers in our community. For example, we offer residential balloon mortgages that the proposals classify as high risk. We have been successful for many years in offering this product, and the proposals would hamper our ability to serve this niche in our market.

Increased risk-weightings for home equity loans will be problematic and ultimately raise costs for our customers. When utilized responsibly by both borrower and lender, home equity lending is a meaningful and valued product and should not be discouraged.

The introduction of High Volatility Commercial Real Estate, with a risk-weighting of 150%, will result in an overall reduction in affordable lending for property developers and community banks alike. Increased buffers to absorb losses from this form of lending are already captured through an appropriate allowance for loan losses

While these are the two areas that will affect our Bank the most, we are aware that other proposed changes will cause hardships for many community banks. With great respect, we request that the Federal banking agencies reconsider the implementation of these proposals on community banks.

Thank you for your consideration.

Respectfully submitted,

Mark L Williamson

Mark L. Williamson
President and Chief Executive Officer

Cc: Mr. Ray Grace, Acting Commissioner of Banks
State of North Carolina – Office of the Commissioner of Banks

Mr. Thad Woodard, President and Chief Executive Officer
North Carolina Bankers Association