FIRST PEOPLES BANK

"A Community Bank"

October 15, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

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

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 Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity 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 a community banker for the past 25 years, I have never seen proposed regulation that will have as detrimental and immediate an impact on the community banking industry as Basel III. The very simple fact, as you have no doubt heard from bankers, state banking regulators, and US Senators and Congressmen alike, is that Basel III was never meant for community banks. Our business model and our risk management practices are based on relationships with our customers, not the highly leveraged and transaction-based models of the largest banks. But this letter is not about danger to the banking industry as a whole. It is the about the detrimental impact of this proposal on First Peoples Bank in Pine Mountain, GA.

Our bank was founded in 1990 to meet the banking needs of Harris County, GA (population 32,265). We have offices in Pine Mountain (population 1,313) and Hamilton (1,021). We have just under $70MM in total assets. We bank customers that many bigger banks would turn away. We make car loans, Christmas loans, college loans, small business loans, and home loans. First Peoples Bank is the only source of borrowing for the vast majority of our customers. Their credit scores don't fit anyone's model, and their homes have decreased in value during the last few years, the toughest economic times since the Great Depression. As a result, our past due loans, our problem loans, and our non-performing assets are typically a little higher than our peers.

But before you question our business model or the strength of our bank, please know that First Peoples Bank has been profitable for each of the past 10+ years. As of June 30 2012, we reported a Tier 1 leverage ratio of 15.82%, a Tier 1 risk-based capital ratio of 25.79%, and total risk-based capital ratio of 27.07%. Like most community banks, our real estate loans are balloon mortgages. We cannot afford to take the interest rate risk of 15 or 30 year fixed rates, and most of our customers cannot meet the greatly increased qualifications of a secondary market fixed rate mortgage. These are small, rural homes with limited comparables. As these loans mature and are refinanced, decreasing values have increased loan-to-value ratios across the board for our loan portfolio. But these are good people who value their homes and have a record of prompt payment with our bank. **We know our customers, we know our local real estate values, and we have understood and effectively managed our risk for the past 22 years.**

I have attempted to calculate the impact of the Basel III proposal on our bank's capital position, even though much of the information needed for the calculation is not currently kept and will be difficult to gather on existing loans. **Based primarily on the disparate and unfounded treatment of all balloon mortgages as "bad" and exceptionally risky loans, our bank's Tier 1 risk-based capital ratio deteriorates to 14.48% (from 25.79%) and the total risk-based capital ratio drops to 15.73% (from 27.07%).** While these numbers are all still within "well-capitalized" levels, our bank's capital "cushion" is greatly diminished; despite the fact that our portfolio hasn't changed at all. Obviously changes of this magnitude will affect our bank's regulatory profile and treatment, our lending tolerances, and, consequently, our ability to meet the specific and unique credit needs of our community.

I think all community bankers, particularly those in my state of Georgia, will agree that higher capital levels are needed to insure against future downturns. But to employ these incredibly complicated and arbitrary calculations to all banks, regardless of size and/or complexity, will be a catastrophe, especially for the smallest of us. Our banks don't mean that much to the international financial picture, but they mean a great deal to the local communities we support. The banking industry in the United States is absolutely unique. No other country has the range of variety in size and specialization and, most importantly, risk profiles of their institutions that we have. As regulators you look at each institution on its own and assess each bank's unique ability to mitigate and capitalize our risk. Please consider this as you debate instituting a "one size fits all" approach of this magnitude to capital adequacy.

Sincerely,

Derek B. Williams
President and CEO