October 18, 2012

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St. NW
Washington D.C. 20429

Subject: Basel III Proposal, "FDIC" and "RIN 3064-AD95 (Basel III NPR) or "RIN 3064-AD96"

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.

Providence Bank is a $110 million commercial bank located in Alpharetta, Georgia in Northern Fulton County. The bank opened in April of 2005 along with 20 other de novo banks. Of those banks only 10 are left. Due to the efforts of our management team, Providence Bank has managed to survive the economic crisis. Now, we face a new crisis with the Basel III proposals.

Basel III was initially designed to be a standard that would only govern the safety of large, internationally active banks. I can only conclude the impact to the community banking industry will affect the ability to lend in certain product sectors. With capital standards rising and risk buffers being put in place to increase capital requirements, banks will be forced to reduce the amount of risk that they can take on. If banks cannot leverage their balance sheets to the extent that they currently do, then a combination of less lending, coupled with more expensive pricing, will be needed. Capital will be even harder to attract for community banks.

In particular to Providence Bank, several aspects of the proposals will have a negative impact:

Decreasing Capital/Legal Lending Limit: In small banks such as ours, we have many customers who borrow close to our current legal lending limit. Reducing our capital reduces our legal lending limit and will cause us to lose customers to other larger banks thereby further reducing our income and our ability to replenish capital through retained earnings.

Standardized Approach for Risk Weighted Assets: If risk weightings for 1-4 Family Loans, Commercial Real Estate Loans and Home Equity Loans increase as significantly as proposed our bank will have to reevaluate the lines of business currently offered. Community banks such as ours would cease making residential mortgage loans and providing short-term lines of credit to small businesses. This would have a profound negative effect on our local economies.

Risk Weighting/Reliance on LTV: The proposal to structure the risk weightings on loans by Loan-to-Value ratios is a mistake. Loan-to-Value ratios are just one factor in determining risks associated with a loan. Additionally, third party appraisals would be relied upon to determine the LTV ratios. Because of the high number of foreclosures in Georgia, third party appraisals don't always reflect the market value of real estate collateral accurately.

Risk Weighting of Delinquent Loans: Our bank is already required under FAS 114 to minimize our risk of loss by carrying a larger balance in our loan loss reserve. The proposal of increasing the risk weighting on past due loans has the double effect of decreasing capital while at the same time holding large amounts in our loan loss reserve. Managing and accounting for delinquent loans utilizing the bank's existing Loan Loss Methodology is a more prudent way of handling this.

Deferred Tax Credit: The bank also has a significant deferred tax credit. Based on risk based capital calculations we already back out a large portion of this asset from capital. The new proposal will further reduce the bank's capital calculations as seen in the following chart.

Current Regulatory Capital		**Proposed under BASEL III**
Tier 1 leverage ratio	**6.50%**	**5.97%**
Tier 1 risk-based capital ratio	**7.93%**	**6.33%**
Total risk-based capital ratio	**9.08%**	**7.33%**

The banking environment in Georgia has be hard hit with the failure of 83 financial institutions. Investors are reluctant to invest in our small community banks. The state's largest financial institutions received Federal TARP assistance and have had access to the capital markets for additional capital. Our institution has worked diligently to find any source of capital for over 4 years without success. The passage of this proposal will depress the bank's capital levels even further and ultimately make investing in a community bank a less desirable investment choice.

Inclusion of AOCI in Tier 1 Capital Calculation: Providence Bank also has securities available for sale. The gains on these securities are backed out of the current calculation. Presently we have a positive market value adjustment in our bond portfolio, but as interest rates rise we will move to a negative value and thus dramatically decrease our capital. The affect for other banks with a larger position in securities could be very detrimental.

Regulatory Burden: I am concerned about the overall complexity of interpreting and following the proposed rules. Small community banks do not have the staff or specialized software needed to report under Basel III. The record keeping requirements of the proposal as it relates to the risk weighting of residential mortgages alone would be particularly burdensome. It could be expensive to execute at a time when every dollar counts.

I believe that if Basel III is implemented it will have a significant impact on community banks in this country. Therefore it is my opinion that Basel III should only apply to large complex financial institutions, not small community banks. Community banks should not face further restrictions that would curtail lending. It is time to get the economy moving in the right direction.

Thank you for the opportunity to respond.

Sincerely,

Brad Serff
Director, President & CEO