PERSONS
Banking Company
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The Farmers Bank • The Peoples Bank • The Bank of Perry • Spivey State Bank

October 2, 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, D.C. 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:

I am writing today 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").

Persons Banking Company is a four bank holding company headquartered in Macon, GA with assets of approximately $380million. Our banks have been serving small to medium size businesses, and individuals of all means, in Metro Atlanta, middle Georgia, and southeast Georgia, for over 100 years. We want to continue serving the communities within our markets in ways that promote economic growth, and job growth, and we want to ensure the new capital rules do not threaten our ability to do so.

Ours is not a large company. We would not be considered "highly complex". We truly are a community bank. Certain Basel III rules will not impact us, but I have great concern regarding the following items as currently proposed:

1. Inclusion of gains and losses on available for sale securities in Tier 1 capital.

   With interest rates at historical lows, our banks currently have net gains in their available for sale investment portfolios, which would serve to increase Tier 1 capital in the short run. However, I am concerned about the long term impact rising interest rates could have on capital levels, and management's ability to grow our balance sheet and grow our loan portfolio, if this proposal is left in the final rules.

I believe inclusion of gains and losses on available for sale securities in Tier 1 capital will create significant volatility in capital levels as interest rates rise and fall. Rising interest rates are usually indicative of an improving economy, and an improving economy could be jeopardized, at the worse possible time, if banks are forced to restrict lending due to declining capital levels, simply because of a decline in the value of the bank's investment portfolio. To counter the impact of this proposal, management may be forced to place more securities in Held to Maturity, which could limit our ability to manage the investment portfolio, a primary liquidity source, through various economic and interest rate cycles.

A +400BP immediate interest rate shock would reduce the value of the available for sale investment portfolio of our four banks by approximately $7million which, under Basel III, would represent a 26% decline in our current Tier 1 capital. Utilizing an 8 to 1 multiplier, this one proposal would result in a reduction in our lending capacity of $56million.

Due to the aforementioned, I am opposed to inclusion of gains and losses on available for sale securities in Tier 1 capital.

2. Increased risk-weighting for residential mortgage loans.

   Community banks have long utilized mortgage loans with balloon payments, as an integral part of our interest rate risk management. This is a loan product, widely accepted by our customers who, for various reasons, do not want, or cannot obtain, a conventional fully amortizing mortgage loan. Our banks have had minimal loss experience with this loan product. The increased risk-weighting that is proposed for non-fully amortizing mortgage loans will limit our ability to originate these loans, which will negatively affect our customers.

   Currently, 1-4 family mortgage loans generally receive a 50% risk-weighting. Under the current Basel III proposal, 1-4 family mortgage loans will fall into one of two categories: Category 1, which are represented by fully amortizing loans, and Category 2, into which all others fall. Due to the balloon payment structure of the majority of our banks' 1-4 family mortgage loans, management estimates that 95% of our residential mortgage loans will move into Category 2, with a risk-weight ranging from 100% to 200%. At June 30, 2012 our banks had 1-4 family mortgage loans totaling $55.2million, which were allocated to 50% risk-weighted assets. Under Basel III, approximately 95% of this portfolio, or $52.4million would receive a risk-weight ranging from 100% to 200%, and would require approximately $4.1million, or 15.7%, more Tier 1 capital to support this portion of the loan portfolio.

   Given the difficulty for community banks to raise capital in the current environment, our only option would be to curtail lending on 1-4 family residential housing, and therefore I am opposed to the increased risk-weighting for residential mortgage loans as called for in Basel III.

3. Increased risk-weighting for home equity and second lien loans.

   Our banks currently hold $8.3million in HELOC and second lien loans, less than 3% of our total loan portfolio. Losses on this portion of the loan portfolio have been minimal. Due to the higher risk-weights applied to these loans, we may be forced to limit, if not totally eliminate this loan product, due to the higher cost of capital.

4. Increased risk-weighting for delinquent loans.

   The timing of this aspect of Basel III could not be worse. The country is in the midst of the greatest economic slowdown since the Great Depression, and loan delinquencies are running at historic highs, especially in Georgia. As a result, our banks have been aggressively building their loan loss reserve, which has negatively impacted earnings and capital. Basel III would have us set aside even more capital for these delinquent loans, a requirement that I feel is very punitive.

   Unlike "loss share" banks and TARP banks, we work with borrowers struggling to service their debt, stay in business, and keep people employed. We have found, in many cases, it is much more beneficial to the bank to keep the borrower involved, rather than rapidly moving towards foreclosure and/or litigation, both of which we use as a last resort. Basel III creates a disincentive to work with troubled borrowers, as the risk weighting on delinquent loans is 50% more than OREO. Given the horrific economic cycle we are operating in, that makes absolutely no sense.

5. Basel III treatment of "High Volume Commercial Real Estate" loans.

   Based upon the proposed treatment of HVCRE under Basel III, the majority of our ADC loans will fall into the 150% risk-weight category, as they are currently structured, due primarily to the lack of the 15% capital investment from the borrower in advance. Going forward, I see very little opportunity for our banks to lend money on ADC projects. The majority of our borrowers will be unable to front the 15% of "as completed" appraised value capital investment, and as a result of the higher risk weighting, our cost of capital to finance these projects would be greatly increased. Also, tracking loans that fall into the HVCRE category on an individual loan by loan basis, so the correct risk-weighting can be applied, will be very cumbersome and labor intensive. This proposal is yet another example of how Basel III will restrict lending.

In closing, Basel III is too complex to be applied to community banks, and easily manipulated by those banks with enough technical expertise to do so. Basel III is a threat to economic growth and stability. It should be completely scrapped and the banking agencies should begin anew with their efforts to develop a system to assess capital adequacy. It is not possible, using just one system, to assess capital adequacy across such a broad spectrum of banks, with such divergent risk profiles, that include money center banks, investment banks, regional and super regional banks, and community banks.

Sincerely,

Douglas R. Harper
Executive Vice President
& Chief Financial Officer

cc: Senator Saxby Chambliss
Senator Johnny Isakson
Congressman Austin Scott
Mr. Joe Brannen, Georgia Bankers Association