TO WHOM IT MAY CONCERN:

These comments are in reference to the proposed revisions to Basel III as set out in FIL-25-2012. First Community Bank of Central Alabama is a $295M state chartered, fed nonmember commercial bank with 6 banking offices located in Elmore and Autauga Counties, Alabama. We are headquartered in Wetumpka, Alabama.

Let me start by saying that I fully understand and embrace the notion that, as a result of this prolonged recession, there needs to be higher minimum capital requirements for banks. I also embrace the intention of this proposed rule to further attempt to capture the embedded risks in a bank's balance sheet. I also appreciate that this proposed regulation would be phased in over an extended time.

What I do not understand or agree with is including unrealized gains and losses in tier one capital. My bank currently has approximately $2.5M in unrealized gains in our portfolio. If those unrealized gains were to be included as capital, then it would infer that we could go out and grow the balance sheet roughly $31M as a result of this "newly found" capital. My bank would never do that; nor would it be prudent. By the same token, if that unrealized gain were to convert to a $2.5M unrealized loss, I do not feel that my bank should have to shrink our balance sheet by the same $31M.

I would also point out that it is categorically unfair to mark the unrealized gains and losses from one section of the balance sheet without considering the other sections of the balance sheet. For example, if we have an unrealized loss in our investment portfolio due to higher rates, then wouldn't it seem logical that we would have a corresponding "unrealized gain" in our deposits?

The vast majority of the securities that we own are risk weighted 0% or 20%: a clear indication from you regulators that loss of principal is highly likely. Therefore, swings in market values are purely driven by shifts in interest rates. We are under a mountain of regulatory pressures to monitor and measure interest rate risk already. I just find it hard to fathom that these temporary swings should be run through capital.

I realize you have concerns that banks can disproportionately sell securities with gains in an effort to shore up current earnings to the possible detriment of future earnings. By doing this, gains are added to capital through gains taken and bonds with unrealized losses are kept in the portfolio with no detrimental affects on capital other than reduced interest income. But having <u>all</u> banks include <u>all</u> unrealized losses in capital is like "painting us all with the same brush".

We strongly believe including unrealized gains and losses in capital when they are generated simply from changes interest rates is wrong. If you can't completely remove this provision from the rule, would you consider some sort of threshold? For example, would you consider having banks reduce from capital the net unrealized losses from securities in excess of 10% of a bank's capital (example: $20m in capital and an unrealized loss of $2.5M would mean a $500k reduction from capital)? I do not think that net unrealized gains in an investment portfolio should be added to capital in any event.

Thank you for giving me the chance to make comments on this NPR. If you need any clarification or further information, please do not hesitate to contact me.

Sincerely,

Travis Cosby, III
CEO
First Community Bank of Central Alabama
334-512-2012