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October 17, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve  
System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

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

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal EES  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, DC 20429

RE: Basel III Capital Proposal

Ladies and Gentlemen:

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 (collectively the “banking agencies”).

The National Bank of Georgia (NBG) is a \$300 million community bank located in Athens, Georgia. We are well aware of the difficulty that many financial institutions in the state of Georgia and across this country have experienced during the recent economic downturn. Our bank is not without its own challenges, but has fared better than most and remained profitable every year during the recession much in part to our community and the economic impact to our market from The University of Georgia. Whereas Basel III intentions are admirable, we have concerns that the proposal will have unintended consequences to the community which we serve.

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One major concern for our bank is the proposed risk weighting changes for 1-4 family loans. Athens has a large 1-4 family rental market due to the demand for housing created by the 34,677 students at the University of Georgia. This loan classification is a major segment of our loan portfolio representing \$66 million or 27% of total loans. Our five Athens lenders have average in-market experience of twenty-four years. Our bank understands the risk associated with a concentration of credit and the need for diversification within the loan portfolio. However, we are uniquely qualified to serve this market with this product. Historically, this segment has been profitable with very few losses for NBG while meeting the needs of the community. Proposals under Basel III increase the risk weighting on 1-4 family loans and will essentially halt lending activities at NBG and other community banks in our market.

Under the proposed regulation, the risk weighting on 1-4 family loans could increase to as much as 200% with no consideration or change in credit quality. Like many other community banks, we use balloon structures with many of our loans to mitigate interest rate risk. Smaller institutions, such as NBG, due to our size, complexity, and staff resources, are not able to enter into swap arrangements or other derivatives to manage interest rate risk. Regulatory agencies are rightfully expressing their concerns about their banks' ability to monitor and mitigate interest rate risk. NBG is very concerned about interest risk, especially in the current low rate environment. Balloon maturities on loans are one of the primary interest rate mitigation strategies for community banks, such as NBG. The proposed risk weighting on balloon structures will penalize banks, especially community banks such as NBG, with the risk weighting automatically going to 150% or more if the LTV is greater than 80%. On the other hand, an unsecured loan will continue to carry 100% risk weighting. Based on our June 30, 2012 capital calculation, we anticipate approximately 295 basis point reduction in our total risk based capital. On a point in time basis, this regulatory change moves our capital classification from "Well Capitalized" to "Adequately Capitalized". Yet, the bank's capital structure and true measurement has not changed from its health of the day before the enactment of the proposed rule. Further, it is hard for us to follow the logic that considers an unsecured loan to have less risk characteristics than a well secured and properly underwritten 1-4 family real estate loan.

The best way to manage the credit risk, other than through prudent underwriting, is through the ALLL and not complicated capital calculations. The industry and specifically community banks have made tremendous strides implementing more sophisticated models to assist in maintaining adequate loan loss allowances. Bankers and regulators are better educated on loan loss estimates and the corresponding GAAP implications. Credit concerns and impairments are considered individually under FAS 114 with write-downs taken at that time accounting for the capital implication.

We are also concerned about the volatility that would be introduced to bank balance sheets through the inclusion of Accumulated Other Comprehensive Income in the calculation of Common Equity Tier 1 Capital. Prudent interest rate risk management must consider the entire balance sheet management of a bank and not one component such as the investment portfolio. Many banks may be forced to reclassify their investments as held-to-maturity which will have negative liquidity implications. Regulatory agencies specifically evaluate sensitivity to market risk during the examination process. It is our opinion that regulators should consider interest rate risk as a whole during examinations and exclude unrealized gain and losses from any capital calculation.

Finally, we are concerned with the complexity of the proposed capital calculations and the resource dedication required. The frequency to track loan-to-value adjustments for risk based capital is not defined or even referenced in the proposal. We also firmly believe that LTV ratios exclusively represent an incomplete, and therefore inappropriate, measure of credit risk associated with a loan.

The officers and board of NBG are highly concerned about the effects that Basel III will have on our ability to continue to support our communities and the economic development in our area. We have 42 employees committed to helping our communities grow and thrive. However, the proposed increased regulation under Basel III will make it difficult to invest in the communities we serve and delay any economic recovery. It is with much respect, that to the extent the proposals are not withdrawn, we believe the final rules should incorporate an exemption for community banks.

Sincerely,



C. William Hopper, III  
President / CEO



Chadwick B. Hargrove  
CFO & COO