FNB
First National Bank
LEGACY. INTEGRITY. VISION.

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October 12, 2012

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@fdic.gov

Re: Implementation of Basel III

Dear Sirs:

First National Bank of Griffin, Georgia has served the financial needs of the people of Spalding County, Georgia and its surrounding area since 1933. The historic economic downturn of 2008 was nearly devastating to our bank and to many in our community. In spite of incurring tremendous credit losses that have significantly decreased our capital levels we have survived the worst of the cycle and feel that we are on a path to recovery; albeit a very long and slow path. One element of our survival of which we are the most proud is the fact that we have survived without a single cent of direct financial investment from our Federal government. Accommodative fiscal policy and interim regulatory changes, such as the permanent increase in FDIC coverage limits and the Temporary Account Guarantee Program, have certainly provided important support to our institution, but any and all direct financial support has come from our community and shareholders.

Regulatory Capital Rules

We are living proof that the existing regulatory capital rules are sufficient and effective when coupled with prudent capital planning, careful distribution of capital through dividends, and sensitivity to leverage. Our institution entered the economic cycle with capital levels well above those prescribed within the rules Prompt Corrective Action. As such we were able to withstand the shock of the economic downturn while remaining above the failure line. Simply stated, we built up a rainy day fund in the form of capital surpluses during the robust times. We just experienced the proverbial 100 year flood and exhausted a significant portion of that rainy day fund. To ask us to not only replenish it almost overnight, but to levels in excess of what had previously been prescribed comes at exactly the wrong time for our continued recovery. The changes being proposed to minimum capital levels under Basel III come at the wrong time.

Inclusion of Comprehensive Income in Tier 1

As a small, closely held bank, whose shareholders are almost exclusively from our local community, all of our Tier 1 Capital is derived from capital stock, surplus, and retained earnings. We have been very fortunate thus far that accommodative fiscal policy has generated some significant gains in the market value of the fixed income investments we hold on our balance sheet. Unfortunately, low loan demand has resulted in our having a record level of such investments on our balance sheet, at present. While the addition of the unrecognized gains on these bonds would be beneficial to our Common Equity Tier 1 Capital ratio in the near term, it will add an element of volatility to our capital calculations long term that will make capital planning much more difficult in the future.

It is a logical belief to think that as the economy gains forward momentum, fiscal policy will turn to one more sensitive to inflationary pressures and interest rates are likely to rise. As this happens we will see these bond gains evaporate. With these gains incorporated into our leverage calculations we will be forced to curtail growth, and most likely lending, which have the potential to stall the economic recovery. Obviously, we are not a systemically significant institution and any causal action related to our bank will not be felt by the larger economy, however, when you multiply this event by the thousands of community banks located across our nation the impact could be severe. The changes being proposed with regard to the inclusion of comprehensive income into the calculation of common equity come at the wrong time.

Revised Risk-Weighting for Real Estate Secured Loan Assets

As a small, suburban to rural market much of our lending, both commercial and consumer, is tied to real estate collateral. As I have already pointed out in my opening paragraph our bank has seen its capital decimated by the recent economic downturn. But, we are slowly restoring those levels. At present, our Total Risk-Based Capital calculations are enhanced by the fact that over one third of our balance sheet is comprised of cash, agency, agency equivalent, or municipal bonds. With the punitive risk-weightings being proposed for certain categories of loans secured by residential property the bank will be forced to think long and hard as to whether or not to grant certain consumer and small business loans at the risk of diminishing the bank's Total Risk-Based Capital ratio. This has the potential to chill the modest economic and real estate market recovery we are just now beginning to see. The changes being proposed for the risk-weighting of certain assets come at the wrong time.

In conclusion, I believe that like much of the regulatory change we have already experienced as a result of the 2008 economic downturn, the effort to contain systemic risk by enacting one size fits all regulation, as is prescribed in Basel III, is ill-advised and will become a hindrance on not only a community bank's ability to serve the very people we were chartered to serve, but could very likely result in a significant slowdown, or perhaps stalling, of the modest economic recovery. Therefore, I am asking that at the very least the exclusion from Basel III originally promised to the community banking industry be re-instated, or that Basel III be repealed in its entirety.

Sincerely,

Charles Copeland

Charles Copeland
President

CC: Representative Lynn A. Westmoreland
ellen.johnson@mail.house.gov