SOUTHERN
BANK & TRUST

October 5, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, N.W.
Washington, DC 20551

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

Robert E. Feldman
Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20249

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I would like to begin by saying that I do not intend to tell you unequivocally that community banks did not engage in the highly leveraged activities that severely depleted capital levels of the largest banks and created panic in the financial markets. It is my belief that there were some community banks that engaged in reckless lending. Otherwise, there would not have been so many community bank failures here in Georgia.

However, I feel very adamantly that the proposed capital regulations will significantly hamper lending and community investment by community banks like Southern Bank & Trust, who did not engage in the activities alleged of "all" banks and have weathered this terrible economy fairly well while still serving our community to the best of our ability. Specifically, the change in risk weighting of residential mortgages will be detrimental to our capital calculation. We do not offer traditional mortgages due to the costs of regulatory compliance as well as the risk on our small balance sheet. We offer balloon mortgages that Basel III standards classify as high risk. We serve a definite purpose in our market with this product and have been very successful as our underwriting standards are the important key not the type of product. Essentially, this change would hamper our ability to serve this niche in our market.

Additionally, the AOCI inclusion in the capital calculation as proposed would be disastrous to our capital in a rising rate environment. We are very aware that our portfolio market value will decline as rates rise and if that unrealized loss were to be included in the capital calculation our ratios would suffer. This of course would be despite the fact that we intend to hold most all of our investments to maturity. Our investments are held in Available for Sale for liquidity purposes mostly.

If interest rates increased by 300 basis points, my bank's bond portfolio would show a paper loss of $3.66 million. This would mean that my bank's tier one ratio would drop by 34.5%. Community banks like Southern Bank & Trust do not have the knowledge, expertise, or means to engage in hedging to manage the risks of such market value changes. Sources of additional capital are scarce for community banks as well.

While these are the two areas that will affect our institution, I am aware that several other changes will cause even more hardship for other community banks. It is with the utmost respect that I request that you reconsider the implementation of these new capital regulations on community banks.

Thank you for your consideration.

Respectfully submitted,

Deanna A. Mote

Deanna A. Mote
CFO
Southern Bank & Trust
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