GEORGIA BANK & TRUST

September 28, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Basel III Docket No. R-1442

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
comments@FDIC.gov
Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Georgia Bank & Trust Company is a $1.7 billion community bank located in the second largest MSA in Georgia. The bank was chartered in 1989 and most likely will attain the number one market share in the combined Augusta- Richmond and Columbia Counties for FDIC Deposit Market Share when the data is released in early October. We operate 12 offices in the local Georgia - South Carolina market.

As a community bank, our primary lines of business are providing deposit and loan services to individuals, professionals and small businesses. We also provide mortgage origination services as well as investment and trust services.

We are very concerned the Basel III capital proposals will negatively impact our ability to serve our customers and communities by requiring us to accumulate and hold additional capital above our current "well capitalized classification". *This will specifically restrict our ability to lend to small businesses----the sector of the economy that creates most jobs.*

The following comments reflect our estimates of the specific impact on Georgia Bank & Trust Company of the proposed Basel III rules:

Accumulated Other Comprehension Income:

The definition of Common Equity Tier 1 (CET1) to include all unrealized gains and losses on available for sale securities injects significant volatility into the calculation of CET1; volatility of capital that is solely based on temporary interest rate movements. At the present time these unrealized gains and losses would comprise $6 million or 5% of our CET1. However, it would be reasonable to expect that when interest rates rise, we could easily be subjected to a 10% or greater decrease in the CET1. *A 10% decrease in the CET1 would introduce volatility in lending and may require we restrict lending in a rising rate environment. The proposed rule creates an impediment to an expanding economy.*

Community banks will be forced to manage their securities portfolio in a manner to minimize the impact of unrealized gains and losses on CET1. Liquidity could be reduced as banks classify securities as Held to Maturity in order to avoid including in CET1. *The resulting loss of flexibility in managing the securities portfolio could also result in decreased earnings, additional pressure on the net interest margin and additional interest rate risk.* Why force a liquidation value for securities into the capital ratios for all community banks when the banks remain a growing concern?

Access to capital markets continues to be a struggle for community banks. *The introduction of additional volatility in capital could raise the cost of capital, further restrict access to capital and increase the risk for investors in banks. The proposed rule will place significant pressure on regulatory capital in a rising rate environment.*

The unrealized gains and losses on available for sale securities do not need to be included in CET1. At a minimum, all U.S. government, U.S. government agency and U.S. GSE obligations should be excluded from the CET1 calculation since they represent no credit risk.

Trust Preferred Securities:

The Collins amendment to the Dodd-Frank Act (Section 171) grandfathered Trust Preferred Securities (TruPS) for banks under $15 billion. The proposed Basel III rule completely ignores the intentions of the U.S. Congress for smaller issuers. TruPS represent 17% of the equity capital of Georgia Bank & Trust Company. The impact on our bank will require the exclusion of an additional $2 million in capital each year for 10 years from CET1. The only way to replace this capital is through earnings since smaller banks have limited ability to raise additional capital. So, in practice, the regulators are proposing to further stress capital. *Consequently, the proposed rules restrict our ability to lend to our primary professional and small business customers.*

If this rule goes forward, it should be modified to require the amortization of TruPS to their original maturity, rather than the proposed 10 years. This would place significantly less pressure on capital for smaller banks. The amortization of TruPS for Georgia Bank & Trust Company to maturity would reduce the annual impact from $2 million to $833,000, a much more reasonable impact.

Credit Enhancing Representations and Warranties:

The proposed rules require the holding of additional capital for the mortgages we sell into the secondary market that contain early default clauses. Our documents require that representations and warranties extend for 120 days. Based on our current volume of mortgage origination, we would be required to increase risk weighted assets by $120 million or 11% of our pre Basel III risk weighted assets. In 20 plus years of mortgage lending, we have never experienced a default within the 120 day period.

The proposed rule could impair residential mortgage lending on a national basis by increasing the cost to the customer or reducing access to funding of these loans.

Residential Mortgage Categories:

The proposal to increase risk weightings on traditional or higher loan to value residential mortgages is solely based on loan to value considerations. It primarily is dependent on collateral values without regard to private mortgage insurance and sound credit underwriting. Our portfolio of residential mortgages are made to very high credit standards, high credit scores and low debt to income ratios. In many cases they are doctors or other professionals relocating to our community. This proposed rule will significantly restrict our ability to continue to offer these mortgages and add an additional $13 million to the risk weighted assets calculation. If we were to continue to offer such mortgages, pricing would have to increase significantly. *This proposal will further restrict the availability of credit and have a negative impact on the overall housing market.*

Non-qualifying First Liens and Junior Lien Mortgages:

The proposed rule to categorize basically all non-qualifying first liens and junior liens as category 2 exposure with risk weights from 100 to 200% again severely impacts the housing market. A bank holding both the first and second liens is penalized as most likely the first lien mortgage also becomes a category 2 exposure. In addition to increasing risk weighted assets $78 million, we would most likely *significantly reduce lending for non-qualifying first lien mortgages and home equity loans, again restricting credit availability to creditworthy individuals.*

High Volatility Commercial Real Estate:

The proposal to risk weight non-exempted High Volatility Commercial Real Estate (HVCRE) at 150% ignores the desirability of soundly underwritten ADC loans to borrowers with more than adequate debt service coverage ratios from owner occupied and income producing properties. The impact would be additional risk weighted assets of $83 million. These requirements will further negatively impact our ability to provide credit to small businesses. If we were able to make any such loans, *the cost of credit to our customers will increase significantly due to the required capital allocation.*

Delinquent Loan Risk Weights:

The proposed rule to assign a risk weight of 150% to nonresidential loans over 90 days past due could *require the bank to be less willing to help our customers on a workout basis, instead requiring us to proceed directly to foreclosure and liquidation of the asset.* This requirement also ignores the fact that this additional risk is addressed through the Allowance for Loan and Lease Losses (ALLL). This proposal requires an additional $15 million in Risk Weighted Assets.

All of the aforementioned comments regarding mortgages, non qualifying first lien and junior liens, HVCRE and Delinquent Loan Risk Weights, reflect a total disregard for the proven system of protecting or cushioning a banks capital through a rigorous process to evaluate, monitor and maintain an appropriate ALLL. *Most assuredly, these proposed rules will force banks to maintain lower levels of*

ALLL by placing the priority on earnings to generate capital. Specifically, our capital would be 10% or $12 million higher had we not chosen to maintain a robust ALLL (currently 3.5% of total loans). These rules will subject community banks to "double jeopardy" in this regard.

The proposed Basel III capital rules applied to community banks will certainly have a negative impact on profitability by limiting certain higher yielding loan products, increase capital requirements and most importantly, restrict access to credit for loans to individuals, professionals and small businesses. These loans are the lifeblood of both community banks and the communities they serve.

A further "unintended consequence" is the potential impact of these proposed rules on risk weighted assets when community bank balance sheets return to a more normal allocation of securities and loans. Currently, securities represent 40% of the balance sheet for Georgia Bank & Trust Company. In more normal times that would be closer to 20%. Reducing the securities portfolio 20% and allocating that to the loan portfolio would increase the risk weighting from the current 0-50% required of most securities to 100-200% required of loans. This would potentially increase the banks risk weighted assets another $200-250 million or 19-24% above current pre Basel III levels.

In summary, we estimate the following direct impacts to Georgia Bank & Trust Company from implementation of the Basel III rules as they are proposed:

Capital:

- Common Equity Tier 1 will be subjected to volatility of approximately + or - minimum 5% due to inclusion of accumulated other comprehensive income. As of June 30, 2012 capital would be increased $6 million
- The phase out of TruPS will reduce capital $2 million per year for 10 years

Risk Weighted Assets (RWA):

- Credit Enhancing Representations and Warranties – increases RWA $120 million
- Residential Mortgages – increases RWA $13 million
- Non qualifying First Lien and Junior Lien Mortgages – increases RWA $78 million
- High Volatility Commercial Real Estate – increases RWA $83 million
- Delinquent Loans – increases RWA $16 million
- Threshold Deductions – increases RWA $17 million

Under the proposed rules, the risk weighted assets for Georgia Bank & Trust Company increases from $1.064 billion to $1.376 billion. This represents a total increase of $312 million or 29% in risk weighted assets for Georgia Bank & Trust Company of Augusta. Additionally, with a normalized balance sheet (20% fewer securities replaced by loans) risk weighted assets would increase a minimum of $200 million for a total combined <u>increase in risk weighted assets of $512 million or 48% of pre Basel III requirements</u>.

A careful study of the proposed rules clearly indicates they have not been designed for nor are they appropriate for community banks. In fact, they are clearly punitive. In addition to the capital impacts, most *community banks will have to go to considerable expense and effort to calculate and report the detailed nature of the information requested.* Additionally, there will be significant time requirements to collect the information on the existing portfolio since there is no "grandfathering".

In conclusion, after consideration of all the impacts of the proposed Basel III capital rules, we oppose the proposals for community banks. *The overall punitive capital impacts on community banks will have a detrimental effect on the availability of credit and result in a significant negative economic impact.* Under the proposed Basel III rules, community banks will not be able participate in the economic recovery by supporting small business lending as we will have been required to unnecessarily allocate our capital in order to comply.

Respectfully,

R. Daniel Blanton
President & CEO

Ronald L. Thigpen
EVP & Chief Operating Officer

CC: Senator Saxby Chambliss
Senator Johnny Isakson
Representative John Barrow
Representative Paul Broun