



October 17, 2012

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Board of Governors of the Federal Reserve System  
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Washington, D.C. 20551  
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Executive Secretary  
Attention: Comments/Legal ESS  
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Re: Basel III Capital Proposals

Ladies and Gentlemen:

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

Northwest Georgia Bank was chartered in 1904 and has been diligently serving our community since inception. We have since grown to over \$450 million in assets with locations in northwest Georgia and southeast Tennessee. We serve a wide variety of individual needs from commercial lending to the individual consumer while consistently giving back to our local community.

We are concerned that the capital requirements proposed under Basel III will severely impact our ability to continue to fully serve our communities going forward. The following summarizes our concerns under the new proposal:

1. Treatment of Gains and Losses on Available for Sale (AFS) Securities:

Our bank holds a significant investment portfolio in the form of AFS securities. This portfolio is not held for trading purposes, rather it allows us to manage liquidity, earnings, and interest rate risk inherent in our business. Under the proposal, we will be subject to large fluctuations in capital requirements solely based on “paper” gains or

losses from AFS securities in our portfolio. As proposed, forcing the unrealized gain or loss through other comprehensive income will require our bank to reevaluate our investment strategy, reduce certain types of security purchases, and decrease our ability to manage our investment portfolio in order to provide liquidity and offset interest rate risk. Additionally, including unrealized gains provides a false impression that capital is available for growth and investment and could therefore increase the risk level of banks. Inclusion of this provision will have a significant impact on the securities markets, potentially eliminating demand for certain types of investment securities.

As noted in the table below, the effect of the inclusion of gains and losses from AFS securities (as of 6/30/2012) in the calculation of Accumulated Other Comprehensive Income (AOCI) causes substantial swings in the capital ratios. We do not feel the inclusion of AFS security gains or losses portrays an accurate picture of capital.

	Common Equity Tier 1 Capital Ratio, as proposed	Leverage Ratio, as proposed
No inclusion of AFS g/l in AOCI	8.27%	3.77% (Undercapitalized)
With AFS gain in AOCI, based on current securities gain	10.49%	4.78% (Adequately Capitalized)
With AFS loss in AOCI, based on forecasted up 100 bps	7.16%	3.26% (Undercapitalized)

## 2. Elimination of Trust Preferred Securities:

We believe the proposal limits an important source of capital by the eliminating the use of trust preferred securities. While trust preferred securities are not a significant source of capital for our bank, they are a cost effective source of capital important to our growth. Community banks have much more limited sources of capital, especially in the current economic environment. Removal of this source further restricts capital availability in a time of limited capital options.

## 3. Risk Weighting for Residential Mortgage Loans:

The administrative burden to comply with this provision of the proposal will be difficult for our bank. As proposed, each individual loan will require repeated analysis to accurately determine risk weighting. The requirements as proposed would tax our current resources. We believe that the benefit gained from the additional analysis required is simply not cost effective.

In conclusion, the Basel III proposal in its current form would have a significantly negative impact on our bank. Capital levels would be dependent on artificial, unrecognized gains and losses in our securities portfolios, capital sources would be removed that are important to our future growth, and the administrative requirements imposed would greatly burden our resources given the ever increasing regulatory environment.

While we recognize the need for prudent capital requirements, we feel that as a community bank, Basel III would limit our ability to continue to serve our customers in the role we have provided for over one hundred years. We know that community banks are an important source of funding and support to our nation's local communities; we do not strive to become a "big bank" in form or function and should therefore not be treated as such in terms of Basel III as proposed.

Thank you for your favorable consideration,



L. Wesley Smith  
Chairman & CEO