Southern BancShares
Southern BancShares (N.C.), Inc.
116 East Main Street • Mount Olive, North Carolina 28365-0729
A BANK HOLDING COMPANY
POST OFFICE BOX 729
TELEPHONE: 919-658-7000

December 19, 2017

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

The Honorable Janet L. Yellen
Chair
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20219

Mr. Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

Re: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996

We truly appreciate the opportunity to provide comments on the proposed simplifications to the Capital Rules that are currently being considered by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "Agencies").

In short, we believe that the proposed simplification should be approved because our institution will be impacted significantly and we can only assume this is an unintended consequence in an otherwise well-intended rule.

Southern BancShares (N.C.), Inc. ("BancShares") is a $2.6 billion bank holding company headquartered in Mount Olive, North Carolina, a town with a population of approximately 4,700 residents. The banking subsidiary of BancShares, Southern Bank and Trust Company (the "Bank" or collectively "Southern"), was founded in 1901 in Mount Olive, and currently through its sixty four branch locations, serves consumers and small to mid-sized businesses of eastern North Carolina and southeastern Virginia. Let me share the following perspective on the markets our institution has long served:

- 36 of our 64 locations serve towns with less than 5,000 people.
- 22 of our 64 locations serve North Carolina counties that are designated as Tier 1 Economically distressed.
- 15 of the 64 locations are the only banking institutions in the communities where they are located.

While we have a few locations in larger metropolitan areas; our core and history is in rural eastern North Carolina. The small business loans, agricultural loans, consumer loans, and mortgage loans provided by our Bank each year to these communities is imperative to their economic success.

Our consistently favorable regulatory reviews and our sustained asset quality and earnings are a testament to our focus of sound lending and fundamental banking practices, which has been our culture for many decades.

We have a handful of equity securities that have been owned by our company for more 40 years. These are principally banking organizations where we understand their business and markets and are comfortable with the investment. As a result, Southern currently holds common stock investments in other financial institutions whose cost basis totals just over $16 million and have a market value of over $97 million as of November 30, 2017. We have not acquired any additional equity instruments in many years. We have, in fact, taken a path to methodically reduce the positions to demonstrate good governance over time; however, these instruments have also continued to appreciate over time. These are sound financial institutions and we are comfortable with the markets, management teams and Boards of Directors. While we stay attentive and diligent, these are long term holdings of our company.

In regards to the proposed simplifications to the Capital Rule pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, we ask that you move forward with the proposed simplifications, especially the changes in the rules surrounding investments in the capital instruments of unconsolidated financial institutions. We are not currently limited under the BASEL III guidelines in our holdings of such securities given our cost basis in these instruments, as compared to our Common Equity Tier 1 capital. Regrettably, this will change beginning January 1, 2018.

In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-01: Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). One of the requirements of the ASU is that equity investments must be measured at fair value with changes in fair value recognized in net income. As required, Southern will adopt the ASU during the first quarter of 2018 with a cumulative effect adjustment from accumulated other comprehensive income to retained earnings as of the beginning of the year of adoption. This will result in the unrealized gain on our investments, net of the associated deferred tax liability, moving to retained earnings and being available as Tier 1 capital. However, as stated in the current Capital Rule, any such investment in excess of 10% of Common Equity Tier 1 capital has to be deducted from our capital. As of September 30, 2017, the associated unrealized gain, net of tax, totaled $43.8 million. However, based on Southern's level of Common Equity Tier 1 as of September 30, 2017, only $13.2 million or 30% of the unrealized gain, net of tax, would have counted as capital, if this ASU were in effect as of September 30, 2017. If the ASU, as well as the proposed Capital Rule change (lifting the threshold from 10% to 25%) were both in effect as of September 30, 2017, $39.6 million or 90% of the unrealized gain, net of tax, would have counted as capital.

Subsequent to the required adoption of this ASU, our monthly earnings will be impacted based on the changes in value of these instruments. As we have for decades, we plan to carefully assess this position. Our fundamental approach will be to ensure that we maintain strong capital margins and a high quality balance sheet to ensure that the price volatility that may occasionally come to these holdings will not impact our company's soundness.

It feels fundamentally unfair that we are required to distort our company's income statement with the price volatility that is inherent in equity investments but we are not permitted to capture the Common Equity Tier 1 capital that is so often used to assess our health.

We also understand that included within the proposal are changes to the definition and treatment of high volatility acquisition, development, and construction loans. While this is not our institution's type of business, we understand the need for, and welcome changes to the definition and treatment of such loans. However, we believe that this is a more complex issue to resolve than the issue related to capital deductions for investments in other financial institutions. As such, if the proposal related to high volatility acquisition, development, and construction loans begins to delay the passage of a final rule, we ask that you split the proposal into two rulemakings.

Please move forward with your good work and allow this proposal to become the permanent rule.

Sincerely,

The Executive Committee of Southern BancShares (N.C.), Inc. and Southern Bank and Trust Company

[redacted]

William H. Bryan — J. Grey Morgan - Chairman

[redacted]

Hope H. Bryant [redacted] — M.J. McSorley

[redacted]

Michael L. Chestnutt — John C. Pegram

[redacted]

Drew M. Covert — Malcom R. Sullivan, Jr.

[redacted]

G. Rouse Ivey