

# Palmetto State Bank

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October 15, 2012

Mr. Robert E. Feldman, Executive Secretary  
Attn: Comments / Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to comment on the Basel III capital proposals.

My institution is a \$441 million asset community bank serving the South Carolina counties of Allendale, Hampton and Beaufort. Allendale County and neighboring Hampton County are predominantly low and middle income rural counties. Five of the eight census tracts are classified distressed or underserved.

I am concerned that the proposed capital rules for mortgage loans will (1) limit access to residential mortgage credit and (2) increase the risk of disparate impact lending claims against community banks operating in depressed rural areas.

The proposed capital rules push for homogenization (standardization) of mortgage products based on term and structure at the expense underwriting flexibility and willingness to pay. All borrowers are not the same. Personal circumstances are often unique, requiring the local banker to underwrite mortgage credit on terms and conditions falling outside Fannie Mae, Freddie Mac or FHA guidelines. Community bank capital issues would be better addressed on an institution by institution basis based on the performance of the residential held-loan portfolio. Category II, non-qualified mortgage loans as defined under Basel III currently held by my bank are not "toxic" and have performed well over time.

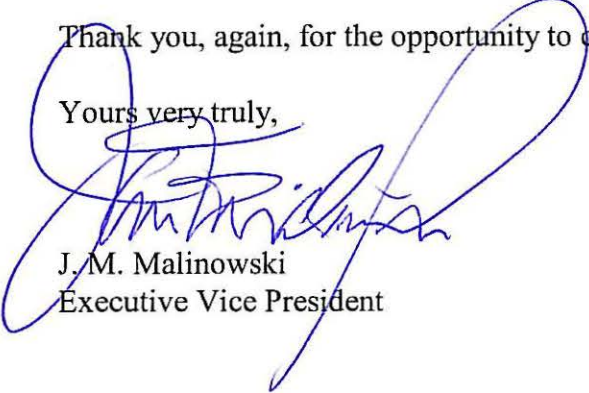
Basel III's higher capital requirements may, as an unintended consequence, subject rural community banks to elevated disparate impact lending claims. Residential mortgage loan denials will increase as credit becomes more restricted or unavailable to those demographic groups least likely to meet more rigorous underwriting guidelines. Creativity and flexibility are needed in distressed and underserved communities, not

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blindly imposed product standardization. The potential for needless, burdensome litigation needs to be thoroughly addressed.

Thank you, again, for the opportunity to comment upon Basel III.

Yours very truly,



J.M. Malinowski  
Executive Vice President