Bank of TRAVELERS REST
SINCE 1946
Member FDIC

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October 1, 2012

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

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

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

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

Bank of Travelers Rest is a $490 million community bank with nine offices located in the Upstate region of South Carolina in northern Greenville County. Our bank was chartered in 1946 and has been serving individuals and small to medium size businesses in Travelers Rest and the surrounding communities for over 66 years. We are concerned that the Basel III proposals will seriously impede our ability to continue serving our community.

First, the inclusion of unrealized gains and losses from the investment portfolio in the common equity tier one computation will result in increased volatility to capital. During this period of historically low rates, most community banks will have unrealized gains in their investment portfolios. However, once an economic recovery begins interest rates will rise and those unrealized gains will quickly become unrealized losses. For example, our bank has an unrealized gain as of September 30, 2012 of $5,197,921. In an economic recovery where interest rates rise 300 basis points (3%), our unrealized gain would quickly turn into an unrealized loss of approximately $10,040,479. This would result in a reduction to our capital of $15,238,400 or 32%. This adjustment to capital would occur even though nothing changed other than interest rates during an economic recovery. It appears that this proposal will introduce additional volatility instead of provide stability to banking.

Large financial institutions have the ability to mitigate capital volatility by using interest rate derivatives and other instruments. Community banks do not have the resources to engage in these transactions and manage the associated risks and costs. Community banks should be allowed to continue excluding unrealized gains and losses in their investment portfolio from capital calculations.

Second, the proposed capital conservation buffers will put additional pressure on community banks to raise capital. Most community banks do not have ready access to capital such as the larger banks have through capital markets. For example, our bank is a Subchapter S corporation and therefore restricted to the number of shareholders it may have. The only way for our bank to raise capital is from current shareholders or through earnings over an extended period of time. If our bank was not able to meet the minimum capital requirements with the buffers in place we would be restricted on dividend distribution to our shareholders. Prohibiting a Subchapter S bank from distributing earnings will conflict with IRS regulations which require our shareholders to pay income taxes on the earned income of the bank. Dividend Distributions made by Subchapter S banks which are made for the purpose of paying income taxes should be exempt from the capital conservation buffers to ensure that their shareholders do not violate the provisions of the Internal Revenue Code.

Third, increasing the risk weighting for residential balloon loans, interest-only loans, and second liens will penalize our customers by making these loans more expensive due to the additional capital requirements. In some cases it may even force us to exit a market entirely. Though most of our first mortgage residential real estate loans conform to the requirements of the secondary market, given the bank's rural location there are a number of good customers whose loans are non-conforming because of the amount of acreage involved, or because there are no recent sales of comparable properties or because the property or surrounding properties may have mixed use. Bank of Travelers Rest has $38,254,140 in loans secured by these properties of which most are structured with balloon payments. In addition the bank has $25,656,656 in home equity lines of credit and $4,651,438 in closed-end second mortgage loans.

Our loss experience on these residential real estate loans does not justify the additional capital requirements Basel III will impose on these loans. Over the past three years, in spite of one of the worse recessions in history, our loss ratio on these residential real estate loans never exceeded one percent. This loss ratio includes first and second mortgages as well as home equity lines of credit. The Basel III risk-weights will also penalize the bank for utilizing payment structures, such as balloon payments, in order to mitigate interest rate risk on our balance sheet and the bank will be forced to make significant software upgrades and incur additional personnel costs in order to track loan-to-value ratios and determine the proper risk-weight categories.

Given the potential impact on our customers, the historical loan loss ratio on residential real estate loans, the adverse effect on interest rate risk management and the cost of compliance, community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

Fourth, limiting the inclusion of the Allowance for Loan and Lease Losses to 1.25% of risk-weighted assets is counterintuitive to increasing capital and providing an adequate cushion for loan losses. If Basel III is truly about strengthening capital and preventing losses then why limit the amount of loan loss reserves included in the capital calculations. Community banks should be encouraged to increase loan loss reserves and certainly not be penalized for doing so. Recent history has taught all of us that an adequate Allowance for Loan and Lease Losses is the first line of defense for unanticipated loses and serves as an important capital conservation buffer which should not be limited for no apparent reason.

Fifth, increasing risk weights for nonperforming loans only duplicates the purpose of the Allowance for Loan and Lease Losses and is unnecessary when you consider that the Allowance for Loan and Lease Losses already takes into consideration many of the risk factors listed in the Basel III revised risk weights. This additional risk weighting will decrease our ability to work with customers experiencing economic hardships by making the cost to carry a nonperforming loan prohibitive.

In conclusion, the capital requirements of Basel III will have a very negative impact on the Bank of Travelers Rest and the community we serve. As proposed, Basel III will increase the volatility of our capital account, penalize our S-Corporation shareholders, increase the cost of borrowing, especially for our rural customers, increase interest rate risk, create unnecessary regulatory burden, penalize the bank for maintaining additional reserves in the Allowance for Loan and Lease Losses, and limit our ability to work with customers who are experiencing economic hardships. Our management and Board of Directors firmly believes that if fully implemented as proposed ,over time Basel III will drastically reduce the number of community banks, decreasing competition and resulting in a greater concentration of assets in a few very large financial institutions and thereby perpetuating the problem of "Too Big To Fail".

Sincerely,

R. Bruce White
President