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October 11, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 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
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I appreciate 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.

I am in support of increasing the capital requirement for banks in our country to ensure that our industry can weather the storms that will come our way in the future. I think we all have that goal in common. However, I do have concerns about the proposals which have been approved by the agencies and placed out for comment.

Peoples Bank celebrated its 100th Anniversary in January of this year, growing from the investment of $10,000 by local businessmen in Catawba, NC to a $1 billion bank serving seven counties through 22 offices in North Carolina. Our bank serves the needs of businesses and individuals in our community, making a variety of commercial and residential mortgage loans. We are dedicated to the communities we serve and allocate significant resources to help improve the quality of life in those communities.

We like most other community banks in our country want to make sure we are able to continue serving our communities in the way we have in the past. A strong economy is dependent on job growth and job growth is dependent on availability of capital to fund the small businesses of our communities that produce most of the jobs. We want to ensure that the new rules do not reduce the ability of our community banks to provide this capital.

The following items are the areas of the proposal in which I have concerns:

Corporate Offices
P.O. Box 467 Newton, N.C. 28658-0467 Telephone: 828/464-5620

I. **Requirement that gains and losses on available for sale securities must flow through to regulatory capital.**

Our country is in an unprecedented period of low interest rates. Most banks have significant gains in their investment portfolios. This proposal would serve to increase regulatory capital in the short term. As interest rates begin to rise, this inflated capital would be quickly reversed and could move very dramatically in the other direction. White nothing will have changed in a bank's equity, their regulatory capital ratios could change very dramatically. This proposal will introduce a significant amount of cyclicality and volatility into the system which is opposite of what I believe the goals should be.

Our bank and others could be forced to reduce the size of our balance sheets as the economy begins to improve, simply because interest rates begin to rise. This could serve to undermine an economic recovery as banks reduce lending and concentrate on pulling back to maintain capital ratios. Our small business customers and consumer customers will be impacted by the reduced availability of credit under this scenario.

Our bank will be forced to change the nature and structure of our investment portfolio in order to eliminate the cyclicality and volatility of the proposal. It will also eliminate our ability to manage our investment portfolio through different interest rate and economic cycles, a core tool to offset the inherent rate risk in our loan and investment portfolios.

II. **Elimination of Trust Preferred Securities**

Our bank has issued and outstanding $20 million in Trust Preferred Securities. This has been a very cost effective source of capital for us and has allowed us to grow our bank and as a result to better serve our customers. The elimination of this source of capital will limit our ability to grow our balance sheet. This will reduce the amount of loans we will be able to provide to our communities to support job growth. When you multiply this affect across the country, the potential reduction in loan availability is significant. This proposal is in direct contradiction of the country's goal to spur job growth.

Trust Preferred Securities were grandfathered under Dodd-Frank, but are now being eliminated by the new capital proposal. Community banks have much more limited sources of capital than the large banks do, and this rule is an additional strike against community banks.

III. **Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential home loans which have been sold into the secondary market**

While we are unclear at this time of the actual ramifications of this requirement due to the uncertainties of the specific representations and warranties necessitating the capital requirement, we could be required to set aside capital for $60 to $90 million for loans which have been sold for a long period of time. The need to maintain capital for these additional assets would potentially mean we would have to exit this business altogether.

IV. **Proposal to increase risk weights on delinquent loans**

We effectively allocate capital for past due loans through the reserve for loan losses. By increasing the amount of capital held based on the past due status, banks would be required to set

aside capital twice. I feel that the risk related to problem loans should continue to be managed through the loan loss reserve guidance and not by adding an additional capital requirement.

The impact on our bank to this rule will be to increase our aggressiveness in moving loans that become 90 days past due off the balance sheet. It will reduce our willingness to work with our customers for extended periods to remediate issues.

In conclusion, the proposal as it is currently written will greatly impact our bank in the following ways:

1. It will significantly increase the amount of capital we will need to hold above and beyond the increase which would occur as a result of the increased "capital ratios." Each item discussed above will either increase our risked based assets or it will decrease the amount of capital we have. This is with no change in our current business model.

2. I have no way at this time to ascertain the full impact on our bank because of the amount of work that we will need to undertake to understand the rules, train our staff on how to apply the rules to our balance sheet, implement the coding of each individual loan in our portfolio with the new risk weights, re-program our core processing software to handle the new coding requirements and then create the necessary reports to analyze the data.

3. If the proposal to hold capital on loans we have sold into the secondary market force us to exit the mortgage business, it would result in the loss of a job for 6-10 of our current employees. When you multiply this affect across the country as other community banks are forced to do the same, the number of job layoffs and the loss of income to the industry is significant.

While I fully support an increase at some level in the amount of capital that banks hold, the cumulative effect of each of the items reflected above will have a severe impact on most of the community banks in this country. I strongly urge you to consider this impact and to consider a possible exemption for community banks from the bulk of these rules. Our nation's community banks need to be able to continue serving our communities and helping to strengthen our local economies.

Thank you for your consideration.

Sincerely,

A. Joseph Lampron, Jr.
Executive Vice President and Chief Financial Officer

cc: Senator Richard Burr
Senator Kay Hagen
Congressman Patrick McHenry