



NORTH STATE BANK

September 13, 2012

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

Mr. Feldman:

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. Community banks understand the need for strong, well capitalized banks and it has always been one of our guiding principles.

As the Chief Credit Officer with North State Bank, I am concerned about the possible negative impact of these proposals. Community banks continue to be the life blood of the local economy. Though we have been severely affected by the financial crisis we did not engage in the reckless behavior that contributed to the cause of the economic downturn. We like the rest of our community have suffered significant hardship and continue to work daily to recover from the impact of these unprecedented times. Our resolve is strong and we have great hope for a better future.

Unfortunately, the added rules proposed under Basel III will make it much more difficult and prolong the ability for our bank and our customers to achieve the recovery we all deserve. Specifically, imposing complex and excessive capital standards will threaten the recovery by limiting lending, investment and credit availability in the communities we serve. There will be less credit available and it will be more expensive for consumers and businesses.

Many of the proposals will cause significant impact to capital by requiring banks to hold substantially in excess of regulatory requirements. This is mainly due to altering of the capital treatment of mortgage-servicing assets, deferred tax assets, and trust-preferred securities, requiring community banks to make major changes to their capital structure at a time when it is virtually impossible for them to do so. As a community bank, we do not have access to the capital markets, and subjecting us to capital measurement systems that cause capital ratios to fluctuate dramatically based upon the Fed's interest rate policy is an extreme disservice to us.

We understand the need for strong capital levels and are committed to remaining above well-capitalized levels. But these proposals are raising capital requirements while eliminating some key capital components and this will not serve our local economies well.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "B. S. Hedges", with a long horizontal flourish extending to the right.

Brian S. Hedges