August 6, 2012

CAROLINA
BANK

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

RE: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-AD97

Dear Mr. Feldman:

On behalf of Carolina Bank, headquartered in Greensboro, North Carolina, I would like to express my thoughts relative to Federal regulators giving consideration for the adoption of the Basel III guidelines for community banks.

Over the last year of former Chairman Bair's term, she appeared at one American Bankers Association sponsored event and two separate North Carolina Bankers sponsored events, in North Carolina. In all three cases, I specifically ask the question would the Basel III guidelines be pushed down to community banks. In each case she answered with a resounding, absolutely not! She stayed consistent in her answer, followed by the fact that Basel was being targeted at the top twenty to twenty five banks, who customarily competed on the world stage with international business and community banks were not operating in that space, and therefore should not have any need to worry. My questions stem from the fact that we were receiving numerous e-mails, letters, and visits by a variety of investment bankers who were all touting the fact that this in fact would be pushed down to community banks and they were to be our salvation in raising capital to meet these new standards.

It seems that if the intent of the Basel agreements were to be amongst the largest banks in the world and in specifically the United States, community banks should obviously be excluded. Additionally, the additional capital requirements on top of the newer expectations that have been imposed by the Federal Deposit Insurance Corporation and other prudential regulators, have already increased the capital requirements, which have yet to be codified by Congress. In the weak economy, many banks like ours have been able to achieve those higher standards from a combination of retained earnings growth and run off in our portfolios not being covered by new net growth sufficient to offset that decline. A more heated economy would put more pressure on capital as growth would potentially out pace retained earnings growth.

All this would lead to a number of disastrous things for community banks to reconcile. One is that fact that the Dodd Frank bill is already increasing our costs at an alarming rate, without any clear end in sight, given the fact that those bodies responsible for writing the regulations are deficient in having those regulations promulgated in over sixty percent of the cases. That creates a huge overhang and expectation for continued expenses which will put further pressure on earnings and capital retention. Additionally, increasing those capital standards on community banks, which have less access to the capital markets at a fair price, will further impede those institutions from being able to meet the credit needs of our constituents.

As you should be well aware, most of the major banks are curtailing their staffing themselves, to meet the added regulatory cost burden and by doing so, are thinning the ranks of their lending staff accordingly. That leaves the community banking market to pick up the lending opportunities for the small to medium sized businesses, which in North Carolina for companies less than 100 employees, comprises eighty percent of the North Carolina banking market. To limit our ability to lend to that group, would further add pressure and destabilize the lending markets in North Carolina, and I suspect, the same would be the case in other states of our Nation.

Additionally, the standardized approach NPR will revise risk weighted assets for residential mortgages, which continue to be under such stress that they have yet to be "right sized" after our last financial debacle. These added capital requirements, would further create a huge differentiation in the market place between the haves and the have nots. Since consumer spending and housing are the two most powerful economic generators in our economy, anything that regulators would attempt to do affecting those two components will clearly add to the financial distress that we have been attempting to work our way out of.

Lastly, even though it is proposed that these standards would be phased in, I am fearful that it would cause a number of our community banking friends to fall below the adequately well capitalized thresholds. This may force yet again a number of them to be acquired by others, which further reduces competition in the market place, and could lead to higher pricing alternatives than would otherwise be the case, if competitive practices prevailed. In my opinion, for the regulators to consider accepting this for community banks, clearly demonstrates a lack of understanding, of the banking model, a disrespect to our segment, a desire to eliminate a certain percentage of banks from our economy, and shows a total disregard at understanding the basic fundamental economic framework in our country. I respectfully ask you to take these points into consideration and refuse to push this down into the community banking market. This is especially important that we maintain our capital standards since other forms of synthetic capital are being eliminated as we speak, putting again further pressure on banks to perform in a fashion that here to for has not been expected.

Sincerely,

Robert T. Braswell
President and CEO

cc: Dawn Thompson, North Carolina Bankers Association