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October 18, 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 make comments on the Basel III proposals that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Greer State Bank was chartered by the State of South Carolina in 1988 and is now in its twenty-fourth year of operation. Our bank was formed to provide a local hometown financial institution for the communities in this area of the Upstate. The bank now has four locations, $362 million in assets and employs eighty-seven people. Greer State Bank has a history of supporting the local communities, including many schools and charitable organizations. Adverse economic conditions experienced in the past several years have resulted in difficult times for the bank; however, the bank has successfully maneuvered through those years and has experienced improved results in 2012. We are currently well capitalized, with tier one capital at 8.68% and total risk based capital of 15.01%. After having navigated these difficult economic years, we are concerned that the Basel III capital structure changes could have a significant adverse effect on our bank.

In our opinion, community banks should be allowed to continue using the current Basel I framework for computing capital requirements. Basel III was designed to apply to the largest, international banks and not community banks. Community banks did not participate in the highly leveraged activities that depleted capital levels of the largest banks and created panic in the financial markets. Greer State Bank operates on a relationship-based business model that is designed to serve our communities on an on-going basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The largest banks operate purely on transaction volume and pay little attention to customer relationships. This difference in banking models demonstrates the need to place tougher capital standards exclusively on the largest banks to better manage the ability to absorb losses.

An item in the proposal that causes us much concern is the one relating to accumulated other comprehension income (AOCI). Inclusion of AOCI in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. In the past several years, both short-term and long-term interest rates have fallen to historic lows generating unprecedented unrealized gains for most investment securities. Interest rates have remained at historical lows for an extended amount of time and this has resulted in large portions of banks' investment portfolios being repriced significantly lower. This has been the case for Greer State Bank. Additionally, demand for many implicitly and explicitly government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. This increased demand has caused credit spreads to tighten further increasing bond valuations. Interest rates have fallen to levels that are unsustainable long-term once an economic recovery accelerates. As interest rates rise, fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At Greer State Bank, for instance, if interest rates increased by 200 basis points, our bank's bond portfolio would show a paper loss of $11.7 million. This would mean that the bank's tier one ratio would drop by 38%. Securities could be designated as "held-to-maturity" and not be included in the AOCI calculation, but doing so would place undue restrictions on our liquidity. Large financial institutions have the ability to mitigate the risks of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes with the use of interest rate derivatives like interest rate swap, option, and futures contracts. Community banks do not have the knowledge or expertise to enter into these transactions and manage the associated risks, costs, and other requirements to participate in these types of transactions. In our opinion, community banks should continue to exclude AOCI from regulatory capital calculations as we do today.

Implementation of the capital conservation buffers for community banks will be difficult to achieve under the proposal and therefore should also not be implemented. Many community banks will need to build additional capital balances to meet the minimum capital requirements with the buffers in place. Community banks do not have ready access to capital that the larger banks have through the capital markets. Currently, the only way for community banks to increase capital is through the accumulation of retained earnings over time. Due to the current ultra low interest rate environment, community bank profitability has diminished further hampering their ability to grow capital. The majority of current interest rate forecasts are for rates to remain low for an extended period. If the regulators are unwilling to exempt community banks from the capital conservation buffers, additional time should be allotted (at least five years beyond 2019) in order for those banks that need the additional capital to retain and accumulate earnings accordingly.

The proposed risk weight framework under Basel III is too complicated and will be an onerous regulatory burden that will penalize community banks and jeopardize the housing recovery. Increasing the risk weights for residential balloon loans, interest-only loans, and second liens will penalize community banks who offer these loan products to their customers and deprive customers of many financing options for residential property. Greer State Bank may be forced to originate only 15 or 30 year mortgages with durations that will make our balance sheet more sensitive to changes in long-term interest rates. Many community banks will either discontinue making residential mortgage loans or only originate those loans that can be sold to a GSE. Second liens will either become more expensive for borrowers or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. Furthermore, community banks would likely be forced to make significant software upgrades and incur other operational costs to track mortgage loan-to-value ratios in order to determine the proper risk weight categories for mortgages. Community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

We also do not agree with the proposed ten year phase-out of the tier one treatment of instruments like trust preferred securities (TRUPS) because it is reliable source of capital for community banks that would be difficult to replace. We believe it was the intent of the Collins amendment of the Dodd-Frank Act to permanently grandfather tier one treatment of TRUPS issued by bank holding companies between $500 million and $15 billion. While we recognize the fact that TRUPS issued by bank holding companies under $500 million would not be impacted by the proposal, we urge the banking regulators to continue the current tier one treatment of TRUPS issued by those bank holding companies with consolidated assets between $500 million and $15 billion in assets.

If Basel III is imposed on community banks as it is currently being proposed, it will result in many significant, unnecessary hardships. We respectfully request that you consider this and make changes to the proposed requirements.

Sincerely,

George W. Burdette
President

J. Richard Medlock, Jr.
EVP & CFO