SCBT FINANCIAL CORPORATION

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 comment on the Basel III proposals approved recently by the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

SCBT is certainly in support of a banking industry with a strong capital base and therefore an increased capacity to support economic growth and the communities which we serve. However, there are many areas of Basel III that we believe need revision. We believe the proposed rules as currently drafted are too complex and will be harmful to the small businesses and consumers that we serve, and therefore will slow economic growth.

SCBT is a $4.3 billion bank headquartered in Columbia, SC. We are a 78 year old institution that has grown from our rural South Carolina roots to 76 offices in South Carolina, North Carolina and Georgia, and while we have offices in larger cities, we maintain most of our offices in smaller towns with a customer base of primarily small business and individual customers. Our balance sheet is strong and our capital position has allowed us to continue to lend and remain profitable during this difficult economic environment.

We encourage our bankers to actively participate in civic and community functions and to support the communities which we serve. While we have grown substantially over the years, our primary focus is community banking and certain provisions of Basel III seem to be unduly punitive, complex, and disruptive to this mission and by extension, detrimental to our customers.

Our Bank has a simple capital structure, a basic business model, and has not been a part of the financial services problems which have been so pervasive during this "Great Recession".

The following areas highlight our main concerns:

Increased risk weighting for mortgage loans

Mortgage lending has been a primary focus of SCBT for many years and has been an excellent business for us and has allowed our customers to purchase homes and to refinance existing mortgages into lower rate products at a time when lower payments can make a meaningful difference in household finances.

Inadequate underwriting standards and higher-risk mortgage-based products contributed significantly to higher industry-wide delinquencies and foreclosures in recent years. However, SCBT maintained proper underwriting standards and has worked with struggling borrowers whenever possible. Our mortgage loan losses have been well managed and relatively minimal. The change in risk-weighting as proposed being applied to loans that were originated under different capital standards does not seem appropriate. If an institution properly assesses risk through loan review systems and allowance for loan loss methodologies, then the risk should be properly quantified and controlled. Any increased risk rating and resulting higher capital requirements for certain residential mortgage loans, specifically properly underwritten residential balloon mortgages, will inhibit lending in this sector and have a discernible impact on housing while this sector is struggling. Real estate supervisory loan-to-value limits under FDIC Part 365 already limit higher-risk residential lending. We understand the intent of the higher risk rating concept, but the unintended consequences, such as reduced lending and/or higher pricing to the consumer, need to be considered.

When looking at risk-weighting changes, we also encourage the agencies to re-evaluate the current limitation of the amount of the allowance for loan loss includable for tier 1 capital (limited to 1.25% of risk-weighted assets). It is our view that limitations should not be placed at all on a reserve that serves as a capital buffer, but at a minimum the 1.25% limitation should be increased.

Available For Sale Securities ("AFS")

Basel III proposes to require banks to include any unrealized gains and losses on AFS securities in regulatory capital. This proposal will create volatility in regulatory capital due simply to market fluctuations in interest rates. While this requirement may increase regulatory capital in the current period of low and relatively stable rates, as soon as rates begin to rise, regulatory capital will decline. This decline in regulatory capital could be dramatic and nothing will have actually changed in a bank's core equity. Of course, this decline in regulatory capital will have a detrimental effect on lending capacity and slow any economic recovery.

SCBT has an AFS securities portfolio of approximately $470 Million, over 70% of which are instruments issued or guaranteed by the U.S. government, its agencies, or Government Sponsored Enterprises. These instruments carry minimal credit risk and therefore any recognition of capital impairment would only reflect a temporary issue created by changes in interest rates, not a change generally related to creditworthiness. We encourage the agencies to exclude unrealized gains and losses in the securities portfolio from regulatory capital calculations.

Reporting Burden

We also have concerns as to the costs of gathering data necessary to estimate the impact of the proposed rules on our capital position, and to comply with new reporting requirements. This will be harder for some institutions than others, but with credit costs still elevated for most of the industry, this is a tough time to add to overhead costs.

For the reasons listed above, we respectfully request the agencies strongly consider the additional burden the proposed rulemaking will have on the community banking industry and the significant negative effects that will impact borrowers, the housing industry, and community bank customers throughout the US. If additional levels are deemed necessary, we believe there are more equitable, straight-forward, and efficient ways to ensure those levels are maintained than the set of rules currently proposed.

Thank you for your consideration.

Sincerely,

Robert R. Hill, Jr.
President and Chief Executive Officer

cc: Louie Jacobs, State Board of Financial Institutions
Dr. Jeffrey M. Lacker, Federal Reserve Bank of Richmond
Timothy D. Rich, FDIC Atlanta