CenterState BANK

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

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I appreciate the opportunity to comment on the proposed Basel III risk based capital requirements and other requirements recently approved by the Federal Reserve Board, The Comptroller of the Currency and the Federal Deposit Insurance Corporation. Having lived through the contagion of the financial crisis, I understand and appreciate the logic of improved worldwide capital standards for the internationally exposed and systemically important banks. I am, however, deeply concerned about the unintended consequences if these standards are applied to smaller community banks that are not exposed internationally. The negative unintended consequences will far outweigh any gains and will result in fewer loans, slower economic growth and less job creation.

CenterState Bank of Florida, N.A. was chartered in 1992 and serves over 120,000 clients. We are a $2.4 billion bank with 55 branches in 18 counties in central and northern Florida. The bank weathered the housing bubble in Florida and is eager to make loans and help get the Florida economy growing again.

The following items are the areas of the proposal that cause me concern:

I. Increased risk weighting for residential loans

In particular, the manner in which residential loans, with balloon features, and loans that exceeded 90% loan to value, will be affected, will all but eliminate residential loan originations by many community banks. I believe most bankers realize that there is a need for more capital in the banking system and there is a need to provide more oversight of residential lending, especially among non-bank residential lenders. With that said, we are not aware of any empirical evidence that residential balloon mortgages have any more credit risk than a fully amortizing loan. Commercial banks cannot make thirty year fixed rates loans, due to the interest rate risk associated with a loan of this length of time. In our bank, and I am aware of many other community banks with similar experiences, we have not experienced any more loss with a loan with a balloon than with any other type of residential loan.

CenterState Bank of Florida, N.A. currently makes about $6 million in residential first mortgage loans each month to borrowers who are either unable to fit into the box of a secondary market loan, often due to the fact that they are small business owners and income is either not consistent or difficult to document, or, they simply prefer to deal with a lender they know and with the knowledge that their loan will not be sold into the secondary market. If it becomes necessary to allocate twice the capital to our residential first mortgage loan portfolio, it is very likely we will stop making these types of loans. If community banks across the country make a similar decision, the impact on the housing market will be sizable.

In addition to our first mortgage lending portfolio, we also have a $58 million home equity portfolio. Most of the lines are secured by second mortgages on homes with loan to values at the time of the loans being 90% or less. Our home equity lines have ten year maturities. As they mature, we renew them as long as there has been a good payment history, without regard to the current loan to value of the loan. Also, at the time these lines were originally extended, our files may not have contained all of the information that Basel III will now require. If our home equity portfolio will now be regulated according to Basel III, the additional risk based capital requirement will be significant. The result will be that we will have to shrink our assets, at a time when our community needs us to help it recover from the recession. This isn't good public policy.

II. Complexity

While our primary concern is the impact Basel III will have on residential lending, we are also concerned about our ability to correctly calculate risk based capital due to our inability to stratify our loan portfolio as will be required by Basel III. Extracting loan data, such as current loan to values, and obtaining data on borrowers that were not required when the loans were originated, will place additional cost on our bank. And, the complexity of the methodology of calculating risk based capital will make it difficult for us to do correctly, and we believe will make it difficult for regulators to regulate. To support our concern, I would like to point out that as of October 10, 2012, the three banking regulators have not been able to agree on a common methodology for determining risk based capital, as is evidenced by the fact that the agencies have not been able to release a common calculator to assist banks in understanding the impact the new risk based capital allocations might have on their banks.

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

Last, we are very concerned about the requirement that gains and losses on available for sale securities flow to regulatory capital. Since there is little our bank can do to control the impact a rising rate environment will have on our $490 million investment portfolio, we will attempt to control the impact interest rate risk will have to our capital by shrinking and shortening the maturity of our portfolio, leading us to earn less interest income. Mortgage backed securities and government agencies will be less attractive to us. Our bank simply cannot afford the risk of having our capital impacted by marking to market a $490 million bond portfolio and we will accept less investment income as a result.

In closing, I strongly urge you to reconsider the original purpose of Basel III, which was to require complex international banks to hold more capital on their balance sheets, based on the complexity of their balance sheets. I ask you to exempt banks under $50 billion dollars for Basel III.

Sincerely,

Officers and Directors of CenterState Bank of Florida, N.A. (Signature Page follows)

cc: Senator Bill Nelson
Senator Marco Rubio
Congressman Allen West
Congressman Bill Posey
Congressman Connie Mack
Congressman Dennis Ross
Congresswoman Kathy Castor
Congressman John Mica
Congressman Ander Crenshaw
Congressman Cliff Stearns
Congresswoman Corrine Brown
Congressman Richard Nugent
Congressman Daniel Webster
Congressman Gus Bilirakis

We, the undersigned Officers and Directors of CenterState Bank of Florida, N.A., Winter Haven, Florida, have personally reviewed and concur with this letter dated October 18, 2012.

John C. Corbett, President & CEO

Daniel Bockhorst, Chief Risk Officer

Robert E. Dodd, Chief Credit Officer

Stephen D. Young, Chief Operating Officer

Jennifer Idell, Chief Financial Officer

James Antal, CFO of CenterState Banks, Inc.

E.S. "Ernie" Pinner, Chairman/President/CEO of CenterState Banks, Inc.

James H. Bingham, Director

G. Robert Blanchard, Jr., Director

C. Dennis Carlton, Director

Griffin Greene, Director

Charles McPherson, Director

G. Tierso Nunez, II, Director

Thomas E. Oakley, Director in absentia

William K. Pou, Jr., Director in absentia

Joshua A. Snively, Director