



October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Ave. N.W.
Washington, D.C. 20551

Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 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 Proposal Concerns

Ladies and Gentlemen,

Coastal Carolina Bancshares, Inc. and its wholly-owned subsidiary, Coastal Carolina National Bank (the "Bank") is a three year old nationally chartered commercial bank operating with assets of \$98 million and one location serving the Myrtle Beach MSA in Horry County, South Carolina. The Bank provides community banking services to individuals and small to mid-size businesses, and includes residential mortgage lending and commercial lending.

Thank you for the opportunity to comment on the BASEL III proposals. Although we are supportive of the Agencies' objective to strengthen the safety and soundness of the banking system, we are very concerned the proposal will restrict our ability to grow and support the needs of the communities we serve. The restriction of growth that we believe will come from this proposal is our primary concern.

Limiting Growth

For a new banking institution, growth is the foundation on which our initial viability is based. A de novo institution must establish the necessary balances to produce a net interest margin that covers the basic expenses of operating a community bank. Operational expenses have grown significantly for many reasons, including the needs to protect customer information as the industry and world trend toward the use of complex higher technology. Additionally, operational expenses have grown as we seek to remain compliant with necessary regulations aimed at protecting the customers. Having opened in

2009 amidst the economic downturn and significant changes within the banking industry, the Bank currently continues in its start up phase, seeking the growth necessary to achieve profitability.

Additionally, growth includes expansion projects that require capital outlays. At this early stage of our organization, we anticipate our thinnest capital levels by virtue of having a small capital base to start with, expansion projects, and limited to no assistance to capital levels from core earnings.

The results of the proposal will require the Bank to maintain a higher capital level that will result in a reduction in growth levels that will prolong the Bank's ability to achieve net income that will ultimately add to our capital position. We recognize that we are in a unique position in this regard being one of the last banks granted a national charter in the country in 2009. However unique we may be, the growth challenge is very real for us and to be handicapped by these proposed capital requirements would be devastating.

Aside from our personal growth challenges, the raising of the capital levels will result in reduced lending throughout the industry, negatively impacting the consumers and communities we serve.

Capital Buffers

Rather than tackle each detail of the proposal, suffice it to say that the overall result of the proposal would be to require financial institutions to maintain higher capital ratios to create a higher threshold for determining when a bank may be in "trouble" and a larger capital buffer a bank can work through before reaching the point of failure. Unfortunately, no buffer may ever be large enough to prevent the eventual failure of a bank that is perceived to be "troubled". A non-performing bank is a slippery slope, one in which is almost impossible to recover from once the bank sets on that path.

Deficient capital levels were not the root cause of the weakened banking system. Too little capital was not the culprit of banking failures that have occurred over the last three to four years. The large majority of bank failures have occurred from the extreme loan losses those banks realized. The answer isn't to raise capital levels to support the losses that occurred in loan portfolios from sloppy management of credit risk. The better focus and answer would be to continue to strengthen underwriting practices and better educate on how to properly assess a creditor's ability to repay their loan, to properly assess collateral values, and to educate financial institution management on how to assess loan loss reserves, which are meant to protect against credit losses, more consistent with the level of risk within their loan portfolios.

Additionally, the hundreds of banks that have failed over the last three to four years, pales in comparison to the thousands of banks that have weathered this storm and continue to operate today. These thousands of community banks did not have elevated capital ratios and large capital cushions that helped them through these tough times. The difference between the failed banks and the community banks that continue to operate today was related to their underwriting and credit risk practices.

The additional capital needed as a result of the conservation buffer and changes to risk-weighted asset factors both serve to provide additional capital to cover perceived risk. These provisions, combined with capital protections already in place, such as the allowance for loan losses, create a level of capital significantly in excess of what is necessary to operate a sound financial institution. Capital levels that are too high reduce shareholder returns, limiting a bank's ability to raise more capital from the private equity markets, and, thus, results in the opposite outcome desired – reduced capital availability for the industry over the longer term.

Additionally, the higher capital levels will result in many more banks being significantly under the capital requirements, resulting in more regulatory disciplinary action that will continue to shift the focus of financial institution management away from their main purpose, which is serving the customer and the community. Many banks will find themselves under Prompt Corrective Actions that may ultimately lead to a negative public perception and set these financial institutions on the slippery path of being a non-performing bank.

Risk Weighting of Assets

Another very bothersome aspect of the proposal is the idea of increasing risk weightings on certain loan balances that exceed 100%. There is no possibility of losing more than 100% of a loan balance. Therefore, the proposed risk weightings should be more consistent with the actual losses that can occur.

Unrealized Gains and Losses in the Capital Ratio

Basel III proposes that unrealized gains and losses stemming from the Bank's available for sale investment portfolio be included in common equity Tier 1. Under the current capital rules, unrealized gains and losses that exist in other comprehensive income are not included in the capital calculation. These amounts are "unrealized" and only hypothetical. To include them in the capital calculation would have only negative repercussions. On one hand, capital levels would be artificially inflated if the investment portfolio had substantial gains and capital ratios that include these gains would be deceiving. On the other hand, the Bank may make adverse decisions to limit growth if investment portfolio hypothetical losses were included in the capital calculations, resulting in deceptively low capital ratios. These gains and/or losses are labeled unrealized for a reason. A bank has flexibility over when and if such gains or losses are ever realized in earnings through its decisions to transact within its portfolio.

Furthermore, these losses and gains can be very volatile, creating a price-risk volatility in the capital levels that would make managing capital levels very difficult as we have no control over the investment market place values.

The result of including unrealized gains and losses in the capital ratio would likely be reduced participation by Banks in investing. This will ultimately hurt the investment market, as well as result in lower earnings for the Bank as liquidity would be held in low earning cash accounts to avoid capital ratio issues.

Summary

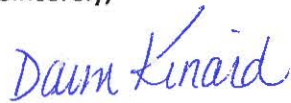
Our comments reflect the concerns we have with the proposals within Basel III that we believe will significantly affect our ability to serve our customers and our community, while simultaneously creating significant challenges for our longer term viability as an institution. We believe the unintended consequences of the proposal, such as limiting growth, creating volatility in the capital ratios, propelling otherwise healthy operating financial institutions into negative status, and creating large capital buffers to prevent future failures, act in direct opposition to the original intentions of the proposal, which was to strengthen the banking industry and protect the consumers and communities served by financial institutions.

The Basel III proposals were designed with influence from an international perspective, whereas the banking system of the United States is very different from the banking system used around the world. Specifically our community banking industry is unique, and it is misguided to use international influence

predicated on large dominate banking institutions to regulate our very different community bank atmosphere.

We appreciate the opportunity to comment on the proposal. We hope that you take our comments and all other comments received in good faith as we all work toward the common goal of a sustainable, safe, and sound banking industry. If you have any questions or would like additional information, please contact us at your convenience at (843) 839-2265.

Sincerely,



Dawn Kinard
Chief Financial Officer
Senior Vice President



Laurence S. Bolchoz, Jr.
Chief Executive Officer
President