Countybank

October 19, 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: Proposed Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provision and Prompt Corrective Action (Basel III)

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for comment by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

We respectfully submit these comments on both Basel III NPR and the Standardized Approach NPR, collectively referred to as Basel III.

Countybank, a wholly-owned subsidiary of TCB Corporation, was founded in 1933 in Greenwood, SC and has grown into a $300 million community bank offering a broad range of financial services to our surrounding communities. Being born during the Great Depression our institution has grown and prospered in varying economic conditions focusing on the needs of our clients and the opportunities that are fostered through these relationships. Review of the proposed rules as set forth in Basel III NPR and the Standardized Approach NPR in conjunction with other existing and proposed regulations presents significant new impediments to the future growth and well being of not only Countybank, but other community banks throughout the country. Listed below are just a few of the significant changes to regulations that would impact Countybank's ability to prosper as a community bank.

Incorporating Accumulated Other Comprehensive Income (AOCI) as Part of Regulatory Capital

In an environment of rapidly increasing interest rates, the requirement of inclusion of AOCI in our capital computations would have negative implications on our capital structure and would require Countybank to maintain an additional layer of capital to compensate for this increased volatility. As a result, it would negatively impact both future growth opportunities and our ability to plan for them. In a 300bp upward shock, losses to the AFS securities portfolio would be about 10% and

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under the proposed calculations the decline in pretax Tier 1 would be approximately 5%. The bank's EVE increases in rising rates and earnings improve as we are asset-sensitive; however, the proposed inclusion of AOCI drops our regulatory capital. The AFS securities portfolio is a valuable and dependable source of bank liquidity, particularly in stress events. This proposal of AOCI inclusion in regulatory capital calculations is in opposition to the sound liquidity management of our securities portfolio.

This is not just an issue for Countybank, but for all other community banks. While larger banks, which were the initial focus of Basel III, can develop hedging options to protect themselves as interest rates move, Countybank and other similar community banks are less likely to be able to similarly protect their investment portfolio from this volatility. Today Countybank is a well capitalized community bank, but as we look into the future, a modest increase of interest rates of even 200 basis points would significantly impair both our Tier I and Tier II capital levels.

New Risk Weights

The problems with the implementation of this component of Basel III on Countybank and other similar community banks is varied and numerous. First, the complexity of this change is a significant regulatory burden for Countybank in that it will require manual categorization of each loan between Category 1 and Category 2, and then by risk weight within each category. We outsource our data processing to one of the largest national providers, and even this core system does not maintain the supplemental data required under these proposals. The costs in systems modifications that will be passed to us, additional labor to gather data manually, and training costs, not including the inefficiencies of more staff time required for manual processes, will be a significant burden to Countybank.

Second, the higher risk weighting for non-performing loans duplicates the purpose of the allowance for loan losses. Third, increasing risk weights on second mortgage liens will impair home financing by raising borrowing rates and will limit future borrowers' access to financing. Additionally, higher risk weights for balloon loans will further penalize Countybank and other community banks for mitigating interest rate risk in our asset-liability management. This has the potential of forcing Countybank 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.

Another change to the Risk Weighting formula that will significantly impact Countybank, and other community banks, is the inclusion of mortgage loans that have been sold to investors with recourse for early payment default. For Countybank, mortgage loans that would fall within this category have ranged between $20 and $25 million this year. This would increase our risk-weighted assets by over 10% and significantly impair risk based capital ratios. If this part of the proposed regulation is allowed to be implemented it would reduce our ability to provide this service to our clients and put Countybank at a competitive disadvantage with other competitors in this market place.

Phase-out of Trust Preferred Securities (TRUPS)

The proposed exclusion of Trust Preferred Securities (TRUPS) when calculating eligible capital is in conflict with the intent of the Collins Amendment, which provided for permanent Tier I treatment of TRUPS issued prior to May 19, 2010, for banking organizations with assets under $15 billion.

While today TCB Corporation, the holding company for Countybank, is under $500 million, the elimination of this source of capital would greatly restrict our ability to grow in the future and would change our strategic growth plans. In today's economic environment, the ability of TCB Corporation to raise common equity to replace our TRUPS is very limited and has the potential to negatively impact our current and future shareholders. As noted above to be consistent with the Collins Amendment, we urge the banking regulators to continue the current Tier I treatment of TRUPS issued by those bank holding companies with consolidated assets between $500 million and $15 billion in assets.

Subchapter S

As a corporation organized as a Subchapter S corporation we strongly urge reconsideration of imposing distribution prohibitions on community banks with a Subchapter S corporate structure, such as Countybank and TCB Corporation. The imposition of this change to regulation conflicts with the requirement that shareholders pay income taxes on earned income. Having a Subchapter S capital structure, we would need to be exempt from the capital conservation buffers to ensure that our shareholders do not violate the provisions of the Internal Revenue Code.

In addition to the issues noted above there are many other parts of the proposed Basel III regulations that will impact the future of our organization to exist as a vibrant and growing organization. Basel III was intended as a regulatory outline for the largest financial institutions which could and have the ability to adapt to this complex regulatory structure, but our bank and other community banks are limited in our ability to meet this complex and overreaching regulation. If Basel III is imposed on the community banks, the compliance burdens, lower ROEs, and loss of access to capital will cause smaller communities, like the ones Countybank and TCB Corporation serve, to ultimately pay the price.

We respectfully request your consideration to revise and/or eliminate many of the proposals in Basel III for community banks such as Countybank and its holding company TCB Corporation.

Sincerely,

Annette L Huskey

Annette L. Huskey
Chief Financial Officer