SoundBank

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Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20551

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by several US banking agencies.

Sound Bank is a $115 million community bank with 3 branches headquartered in Morehead City, North Carolina. We are a traditional community bank with 30 employees who are committed to helping our community grow. We primarily make small business loans and consumer loans in our county. I am highly concerned about the effects Basel III will have on our ability to continue to support the economic development efforts in our area.

First I would like to say that the capital requirements of Basel III, while they may be appropriate for large domestic and foreign banks, are not appropriate for community banks. Community banks had little to do with creating the recent economic crisis and are very familiar with the risks associated with lending to local customers. The current level of required regulatory capital is more than enough to cover most risks associated with community banking activities.

Of particular concern is the Basel III requirement to recognize unrealized gains and losses on available for sale securities in our capital accounts. If a bank has the ability to hold these assets to maturity it should not be required to adjust its capital levels for changes in market value. These adjustments could cause significant swings in our capital levels. For example, if the market value of our securities will change from a $500,000 gain to a $1 million loss due to an interest rates rise by 300 basis points, this loss would be recognized in our capital account, our legal lending limit would decrease and our capital ratios would decline. Both could be viewed as negative events and be cause for further regulatory scrutiny.

Another concern deals with the increased risk weighting on delinquent loans. We are currently at a point in the economic cycle where we are going to hold loans in past due status as we attempt to work with our customers to get through difficult times. The risk associated with these problem loans is already accounted for in our loan loss reserve. Increasing the risk weighting on past due loans is redundant and will negatively affect capital.

In summary, imposing the Basel III requirements on community banks is not reasonable, especially given the fact that community banks did not cause any of the financial shocks that resulted in the "Great Recession"

Very truly yours,

S. Phillip Collins

S. Phillip Collins
President/CEO
Sound Banking Company

cc: Ray Grace, Acting NC Commissioner of Banks