From: Steve Gresham [mailto:sgresham@bankofhollysprings.com]
Sent: Monday, October 01, 2012 8:27 AM
To: Comments
Subject: August 30, 2012 - FDIC (RIN 3064-AD95)

Following the numerous bank failures over the last few years I understand the desire to strengthen the capital requirements of banks to ensure the safety and soundness of the banking industry. However, the Basel III proposal will create undue burdens on community banks like ours, which did not engage in risky transactions and remained strong throughout the recent financial crisis. Additionally, the treatment of mortgages under the proposal stands to restrict the loan market for the individuals that we serve.

Our home mortgage loan customers are currently given the option of a variable rate or fixed rate loan. Approximately 70% choose the variable rate. The loans all have a lifetime cap less than the 6.00% requirement for a category 1 loan, are 80% LTV or less and are prudently underwritten. However, as the majority of our funding source is certificates of deposit of one year or less, there is no annual cap and, therefore, the vast majority of our home loans will be category 2 loans. We have estimated that this will reduce our Risk Based Capital Ratio by approximately 2.50%. We have been structuring loans in this manner for years and they have not posed any greater risk to our bank than our fixed rate loans. We will continue to be well capitalized following this change but it does have the potential to restrict our lending should the capital ratio fall due to growth in assets or other reasons. While such a restriction would be detrimental to the bank from lost income opportunities, it would have a much harsher effect on borrowers who would be forced to find alternative sources for loans with potentially much higher interest rates.

We realize that loans on non-accrual and over 90 days past due carry additional risk. However, in staying in compliance with the requirements for calculating our reserve, an updated analysis is performed on these loans as required and a provision is made as needed for these loans. Requiring 150% risk weighting on these loans fails to recognize the risk already addressed through the reserve.

Another provision in the proposal that will ultimately have a major impact will be the deduction from capital of the unrealized loss on available for sale securities. In the current rate environment this will not affect our current ratio. However, when the rates do rise, it will have a substantial impact. We have determined that a 3.00% rise in rates would affect our ratio by about 4.00%. Our AFS portfolio is 22% municipal general obligations and 78% are in securities with 100% U.S. government guarantees. This minimal credit risk in the securities portfolio should not result in such a large capital adjustment when interest rates do rise.

In closing, under the proposal our capital ratio will drop immediately with another substantial drop on the horizon when rates rise. It also appears that a large number of hours will be needed to monitor all of the requirements. In the end, we will continue to be a safe and sound bank but our customers will once again be the victims of a well-intentioned regulation that failed to recognize the ultimate consequences. I would urge you to exempt community banks from these capital requirements or, in the alternative, exempt home loans under $250,000 and exempt the unrealized loss in AFS Securities resulting from interest rate changes only.

Thank you for your consideration.

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