BankGreenville

October 19, 2012

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

Thomas J. Curry
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, NW
Washington, D.C 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

On behalf of the Board of Directors of BankGreenville Financial Corporation and its wholly owned subsidiary, BankGreenville, we appreciate the opportunity to comment on the proposed notices of rulemaking dealing with Basel III. BankGreenville supports the efforts of the various agencies to address concerns about weaknesses in the capital framework of the banking system. We do however, have serious concerns about the impact of the proposed rules upon BankGreenville and the other community banks in South Carolina that play such a vital role in supporting the businesses and consumers in our market.

BankGreenville is a single location community bank of $115 million in assets located in Greenville, SC. We started the bank in 2006 to provide highly personalized community bank service to the small businesses and consumers that call Greenville County home. In spite of the economic challenges of the last several years, BankGreenville has played a vital role in the success and growth of our local economy and has taken a leadership role in efforts to improve this community. We believe that it is very important that the various parties involved in designing these major changes in our banking system consider the strong prospect of the negative unintended consequences of the new rulemaking. While we do not currently have the

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time or resources to fully ascertain the impact of the proposed rules on BankGreenville, it seems readily apparent that the community banking system in South Carolina and our nation will be seriously harmed and relatedly, our communities and local economies will be negatively impacted.

We would like to offer comments on those areas of the proposed rulemaking that we think will have the greatest effect on our ability to provide credit and quality banking services to the Greenville community. In particular, we will offer comments on the following major areas of the proposed rules:

1. **Flow Through of AFS Securities' Unrealized Gains and Losses**
2. **Risk-Weighting Changes**
3. **Capital Conservation Buffer**

We will avoid restating the proposed changes in the regulation and will offer concerns specific to BankGreenville and the community bank in general.

Flow Through of AFS Securities' Unrealized Gains and Losses

As with many community banks in our region, we currently have significant liquidity as a function of continued deposit growth coupled with low loan demand. Our investment portfolio has been a vital tool to our bank as we have managed our way through a challenging credit environment and the growing compression in our net interest margins resulting from the unprecedented low level of interest rates. The impact of the proposed treatment will be to greatly increase the volatility of our regulatory capital levels in such a way as to force us to modify our asset liability management practices. Most importantly, the changes will impair our ability to manage the bank's interest rate and liquidity risk. Given the present low rate environment, it is highly likely the adoption of this proposal would force us to deal with significant downward pressure on our capital levels as rates inevitably rise. We will be forced to decrease assets and reduce lending in order to address this impact. We would be more likely to make shorter term investments to avoid volatility and maintain liquidity, but we would clearly lose the ability to use our investment portfolio to produce income and create capital appreciation.

We recommend that the proposed rule be revised such that unrealized gains and losses on AFS securities that reside in accumulated other comprehensive income do not flow through capital. This would allow unrealized losses due to credit impairment to be reflected in capital, but would exclude the interest rate impact.

Risk-Weighting Changes

The proposed risk weighting changes of residential mortgages to include existing loans and helocs are of great concern. While we are primarily a small business lender and provider of commercial loans, we do have a meaningful level of home equity lines as well as loans secured by homes with balloon payments. Helocs have historically been an excellent source of small business credit and are often used in situations where no other credit vehicle can be properly underwritten for a new or less proven business. The proposals, if enacted in the current form, will likely lead to Category 2 treatment for our existing mortgage loans due to our inability to obtain the required documentation. Likewise, it seems counter to good credit practices that loans with balloon structures, a standard approach for prudent community bank lenders, should receive Category 2 status.

The treatment required in this new approach will create a terrific administrative burden on the small community bank and will in all likelihood lead to a reduction in our product offerings. The additional capital requirements associated with these changes will lead our bank to consider not providing helocs and in house residential mortgages and will in turn hurt our clients and the community.

We recommend that this section of the proposal be heavily revised to more clearly define Category 1 loans to include prudently underwritten balloon type loans. We would hope that any final rule would also allow for a "grandfathering" of loans originated prior to the change utilizing the current general risk based capital requirements. In summarizing our thoughts about the risk weighting changes, we do not believe that the proposed approach has proper alignment between risk weighting and actual risk characteristics and we would expect access to credit to be greatly curtailed if these proposals are enacted as written.

Capital Conservation Buffer

While we understand the capital conservation buffer concept, we see increasing confusion as to the relationship between the existing PCA framework and the proposed capital guidelines. It is unclear what empirical data was used to establish the buffer amount and the related phase in requirements. The increasing capital requirements of the new risk weighting methodology coupled with the buffer concept will create a need for capital beyond a necessary and workable level for most small community banks. Needless to say, given the scarcity of capital currently available for smaller financial institutions will create real challenges for many well managed and reasonably stable banks as they work to address the proposed requirements.

We believe that the ALLL process already addresses the buffer concept relating to potential for future losses. Significantly higher capital requirements will unfairly restrict a large number of smaller institutions and further curtail lending and community development. We recommend that the capital conservation buffer be removed from the proposed rules.

Conclusion

We appreciate the opportunity to make these comments and hope that the agencies will give serious consideration to revisiting many of the major aspects of these proposed rules. The community banking sector serves a vital role in our financial system and we believe that the rules as proposed will do significant damage to our economy and our communities.

Sincerely,

Russel T. Williams
President and Chief Executive Officer