BANK *of the*
CAROLINAS
CORPORATION

October 15, 2012

Ben S. Bernanke
Chairman
Federal Reserve Board of Governors
20th and C Street, NW
Washington, DC 20551

Dear Chairman Bernanke:

Thank you for the opportunity to express my concerns regarding the implementation of the Basel III proposed rules. The proposed rules will have a negative impact and place serious burdens on our banks, especially community banks like Bank of the Carolinas. I believe the proposed Basel III rules will not achieve their intended purpose and will be more detrimental than beneficial to banks and their customers. I recognize the importance of clearly defined capital standards; however, I am concerned that a "one-size fits all" definition and approach disproportionately places a higher burden on community and regional banks. Bank of the Carolinas cannot be supervised in the same manner as Bank of America, JP Morgan Chase, or any other large bank. Complicated capital and accounting rules on smaller banks present a threat to the financial system.

One example is the Phase-out of Trust Preferred Securities (TruPS) as Capital Instruments. The phase-out of TruPS as a source of capital will place new burdens on community banks. We ask that you revise this proposal, to keep with the intent of the Collins Amendment and Dodd-Frank, by permanently grandfathering any outstanding TruPS for institutions between $500 million and $15 billion.

In addition, the requirement that Unrealized Gains and Losses on Available-for-Sale Securities (Accumulated Other Comprehensive Income or ("AOCI")) flow through to regulatory capital requires <u>every change</u> in the value of an AFS security (even daily changes) must immediately be accounted for in regulatory capital. The frequent fluctuation will introduce significant volatility into capital calculations. I would request the rule be revised so that the unrealized gains and losses on AFS securities that reside in AOCI do not flow through capital. The revision would allow unrealized losses due to credit impairment to be reflected in capital, but would exclude the interest rate impact.

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I believe it is very important in the rulemaking process that you consider the function of our community banks. Our banks serve the people and the needs of small businesses. My fear is the implementation of Basel III, along with the Dodd-Frank Act, will lead to further bank mergers, thus taking away the hometown community banks that provide a vital service to certain customers and our economy.

I believe that the Basel III proposed rules are too retroactive in their approach instead of forward looking. Have there been studies on whether the financial crisis would have been averted or avoided if Basel III had been implemented earlier? Have any studies been conducted regarding the impact on community banks? I worry the proposed rules are being pushed through with great haste, without adequate research on the costs to banks and consumers, or knowing if Basel III will even help to "fix" the issue.

I understand that the Basel III proposed rules are intended to prevent a financial crisis and protect taxpayers. However, I strongly suggest Basel III, in its current form is not the best approach to achieve that goal. I request that you halt the implementation of the internationally designed Basel III proposed rules and rethink the approach. I ask that you conduct studies on the impact on community banks, delaying the implementation of the Basel III proposed rules until a full impact study on community banks can be completed. In the alternative, I would request an exemption for community banks with assets under $500 million.

Thank you for your time and for allowing me to express my concerns.

Sincerely,

F W Slate

Dr. Francis W. Slate
Board of Directors