CAROLINA FINANCIAL CORPORATION

October 17, 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, S.W.
Mail Stop 2-3
Washington, D.C. 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 Provisions, and Prompt Corrective Action (R-1442, Docket ID OCC-2012-0008, RIN 1557-AD46, RIN 3064-AD95)
Proposed Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements (R-1442, Docket ID OCC-2012-0009, RIN 1557-AD46, RIN 3064-AD96)

Ladies and Gentlemen,

Carolina Financial Corporation appreciates the opportunity to submit comments on the above-referenced notices of proposed rulemaking (NPRs). The NPRs were released on June 12, 2012 by the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), (together, the "Agencies").

Carolina Financial Corporation is the sole shareholder of CresCom Bank, an approximate $900 million community bank operating along the coast of South Carolina. CresCom Bank wholly owns Crescent Mortgage Company, which is a wholesale lender with annual volumes of $1.5 to $2 billion in conforming mortgage loans. As community bankers we are actively involved in our communities and provide banking services to numerous small businesses and individuals of all means in our communities. In addition, we provide housing financing opportunities to thousands of borrowers annually. CresCom Bank has a very strong capital position, with Tier 1 capital in excess of 9% and risk-based capital in excess of 15%.

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Carolina Financial Corporation is in favor of strong capital rules for our banking system. However, the NPRs go far beyond safe and sound banking and create confusion, complexity and many, hopefully, unintended consequences. We believe that these changes will significantly impact banking, our nation's economy and capacity to lend to small and growing businesses in our communities. The same businesses are the businesses which increase employment opportunities for our Customers.

Further, we strongly believe that when these rules are modified and improved, they should only apply to those institutions that provide systemic risk to the financial markets and the FDIC insurance system. Applying the NPRs to community institutions which provide significant small business and home lending to individuals, who are not served by these large institutions, will cause significant negative consequences to our nation's economy.

In order for us to create a listing of all of the individual items with which we have concerns, would require a very lengthy letter. Therefore, we have attempted to focus on just the areas of most concern. Several other items included in the NPRs could also significantly negatively impact our organization when applied to the industry as a whole.

The following significant items are outlined below.

Issue of Concern: Deduction of Mortgage Servicing Assets (MSAs) that Exceed 10% of an Institution's Common Equity Tier 1

Under the NPRs, institutions are required to deduct all mortgage servicing assets (net of deferred tax liabilities) that exceed 10% of its common equity tier 1 (15% when aggregated with deferred tax assets and investments in common stock of an unconsolidated financial entity). In addition, the amount that is below the 10% threshold will receive a 100% risk weight (and eventually 250% beginning 2018). Crescent Mortgage Company currently services approximately $2 billion of first mortgage loans. Our investment in MSAs is over 10% of capital and when combined with deferred tax assets is well in excess of 15%.

Without changes to the NPRs, we believe a number of issues will arise, including but not limited to: reduction in MSAs valuation, which will increase the cost of borrowing for U. S. homeowners; concentration of MSAs in non financial, unregulated institutions; fewer mortgage lenders; and less local ownership of servicing rights. These impacts are currently being felt just due to the announcement of the NPRs.

We recommend at a minimum the following: Existing mortgage servicing assets should be grandfathered. It is simply unfair to penalize banks with long standing mortgage servicing assets because of a change in position of the Basel committee. The limit should be increased at a minimum to 30% of capital, with a risk weighting of no greater than 50% for the existing MSAs.

Issue of Concern: Elimination of Trust Preferred Securities (TPS) from Capital

Trust Preferred Securities which were grandfathered as a sources of capital under Dodd-Frank, are now being eliminated by the NPRs. Community banks have much more limited source of capital than the large banks do. Carolina Financial Corporation has $15 million in TPS, which have been outstanding for approximately 8 years. The elimination of this source of capital over time will reduce our lending capacity by approximately $150 million, significantly impacting our communities that we serve.

We recommend at a minimum the following: TPS only be eliminated as a source of capital for institutions that have easy sources of capital, generally those that exceed $100 billion in assets.

Issue of Concern: Requirement that gains and losses on available for sale securities must be included in regulatory capital calculations.
The impacts of this proposal are far reaching. Our institution would be required to decrease any longer duration securities in favor of lower duration securities as well as significantly decrease our available for sale securities portfolio. Overall this would decrease earnings of our institution again impacting our ability to lend. Furthermore, the overall national impact of this proposal would be very significant. There would be less buyers of longer duration securities, outside of the Federal Reserve. This reduced demand will ultimately increase longer-term mortgage interest rates for consumers.

We recommend at a minimum the following: Elimination of this provision due to the volatility to capital ratios and almost unquantifiable negative effects.

Issue of Concern: Increased risk weighting for residential mortgage loans.
CresCom Bank provides several mortgage lending programs, including programs to individuals of moderate means that often have higher LTVs. The new capital proposals require risk ratings of residential mortgages that are in many cases higher than clearly higher risk loans. In addition, the assignment of risk ratings to individual loans will create a significant and unnecessary burden in accounting for changing LTVs. This NPR will increase lending costs for low to moderate income borrowers.

We recommend at a minimum the following: This provision is burdensome and when combined with the incredible amount of other regulation on residential mortgage loans, is completely unnecessary and should be eliminated.

Issue of Concern: Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential mortgage loans, sold into the secondary market.
Under the Basel III Standardized proposal, if a banking organization provides a credit enhancing representation or warranty on assets it sold or otherwise transferred to third parties, including in cases of early default clauses or premium-refund clauses, the banking organization would treat such an arrangement as an off-balance sheet guarantee and apply a 100 percent credit conversion factor to the transferred loans while credit-enhancing representations and warranties are in place. The proposed change would result in substantial additional capital charges. There is little evidence that the temporary representations and warranties associated with "pipeline mortgages" have resulted in significant losses for regulated banking organizations, even during the financial crisis. This regulation would have a significant adverse impact on our institution as well as the banking industry as a whole.

We recommend at a minimum the following: This provision does very little to reduce risk and will have a significant adverse impact on the housing industry, and it should be removed.

Issue of Concern: Change in risk weighting for home equity and second lien mortgages.
CresCom Bank presently has approximately $30 million in second lien loans to customers in our communities. We have had minor losses on these loans. This proposal will either cause us to significantly increase the cost of this type of lending or discontinue it altogether.

We recommend at a minimum the following: This provision does not adequately evaluate risk and should be modified substantially.

Issue of Concern: Changes regarding high volatility commercial real estate.
It is likely that some modification of existing capital standards for certain real estate projects would be appropriate. However, the NPRs will greatly reduce the number of development projects nationwide and will significantly impact our ability or desire to provide financing for necessary projects in our communities.

We recommend at a minimum the following: A complete study on the housing industry including low income housing and the impact this provision will have on our nation's economy.

Issue of Concern: Proposed Rule: Minimum Capital Ratios, Capital Conservation Buffer, and Prompt Corrective Action Requirements
Under the NPR, the Agencies have introduced a new common equity Tier 1 capital ratio and have modified the capital components and ratios for the existing risk-based and leverage capital framework. The Agencies are also proposing limits on capital distributions and certain discretionary bonus payments if the banking organizations do not hold a specified "Capital Conservation Buffer" in addition to the established minimum risk-based capital requirements. The minimum risk-based capital requirements correspond to the minimum thresholds for "adequately capitalized" status under the Prompt Corrective Action (PCA) framework, and the Capital Conservation Buffer is proposed to be 2.5 percent above these minimum requirements. The Agencies are proposing to continue the PCA framework, with existing requirements still in force for organizations that fall below the statutory definition of "well-capitalized", which is 2.0 percent above the minimum requirement.

Given all of the changes to capital contemplated in the prior Issues of Concern, when combined with this item, the banking industry could find itself significantly undercapitalized for our nations growth.
We recommend at a minimum the following: A complete study on entire U. S. economy of this provision when combined with the negative effects of all other NPRs.

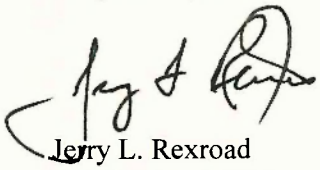
Conclusion
While Carolina Financial Corporation fully supports the Agencies' effort to improve the quality and quantity of regulatory capital and to build additional capacity into the banking system to absorb losses in times of economic stress, we believe that the adoption of the NPRs would:

1. Significantly impact our abilities to provide, residential 1 – 4 family lending.
2. Significantly impact our abilities to hold Mortgage Servicing Assets, increase residential lending rates and will concentrate the holding of this important asset in the hands of unregulated institutions.

3. Significantly impact our ability to provide second lien financing.
4. Significantly impact our ability to provide safe and sound development lending in our communities.
5. Reduce our available capital for lending in general.
6. Have significant adverse impacts to the housing industry.
7. Have significant adverse impacts to the U. S. economy as a whole.
8. Adversely impact the lending to higher risk low to moderate income borrowers.
9. The AOCI provision will introduce significant volatility to regulatory capital resulting in more conservative and restrictive lending practices.

In summary, the implementation of Basel III as proposed, would have significant adverse consequences both to our institution, the banking industry as a whole and our nation' economy. We strongly request that it be withdrawn and reviewed carefully in light of the matters outlined above. Further, we recommend that it not be applied to community banking institutions that do not represent a systemic risk to our banking system. Thank you for your time and consideration.

Respectfully submitted,



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