

# Potomac Bancshares, Inc.

October 19, 2012

Mr. Martin J. Gruenberg, Chairman  
FDIC  
550 17<sup>th</sup> Street NW  
Washington DC 20429

Re: Basel III

Dear Chairman Gruenberg,

Over the past several months as we have learned more about Basel III, the implications for community banks are profound. I therefore want to highlight several key provisions which I believe to be detrimental to our community bank here in Charles Town, West Virginia. Potomac Bancshares Inc. is the one bank holding company for Bank of Charles Town which has been in business for over 140 years in the Eastern Panhandle of West Virginia.

Instead of getting into the many items proposed in Basel III I thought it would be better to document my concerns over several key provisions.

- The proposed requirement for the unrealized gains and losses from the AFS Security portfolio to now impact capital ratios will cause undeterminable fluctuations from quarter to quarter. The current GAAP accounting literature addresses portfolio value declines in the context of permanent and temporary with any impacts to capital appropriately accounted for. As estimated by one of our brokers in a rate shock up 300bp, our portfolio's unrealized loss would negatively impact capital by roughly 55 bps. What is more striking is the fact that our broker further indicates that our numbers are better than 80-90% of their clients. The primary reason being is that we do not carry mortgage backed securities in our portfolio.
- The question to ask from the first point; will bankers continue to be buyers of mortgage-backed securities. A negative answer more than likely will have unknown consequences on the national housing market.
- The proposed provision for increased risk weightings for higher LTV mortgage loans, on the surface does make sense. However, when a community bank lends in its local markets, and while we concede of the decline in home values, the proposed risk based guidance becomes onerous to the point that simple residential lending will slow. Higher capital requirements will translate into a higher cost of doing business as more capital will be required. A single family residential mortgage loan in our community will require more capital under Basel III.

One can understand and appreciate the concerns to have more capital in response to increased risk. However, I ask that Basel III be studied further. We already have sufficient and excellent regulation including capital standards. I am not sure we will ever arrive at an answer to the question of how much capital is enough, but I suggest that the private sector be the determining factor as to which companies survive and those that don't.

Sincerely,



Dean Cagnetti  
Chief Financial Officer

OC 12-295  
P.O. Box 906 • Charles Town, WV 25414-0906  
Phone 304/725-8431 • Fax 304/725-0059

**FDIC**

OCT 26 2012

**OFFICE OF THE CHAIRMAN**