Bank of Botetourt
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September 10, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Thank you for the opportunity to provide comments on the Basel III proposal that was recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Our bank benefitted by the extension granted for comments so that we could offer the following insight about the impact of Basel III on our financial institution.

Bank of Botetourt was founded in 1899 and currently operates ten offices in four counties of Virginia. Our total assets approximate $300 million. Our one bank holding company, Botetourt Bankshares, Inc., was formed in 1997. Under the current proposal, we are subject to the full set of capital rules including the common Tier 1 capital ratio and the capital conservation buffer.

We are opposed for the following reasons:

- As drafted, the proposal would force our small bank holding companies to develop costly compliance regimes. For example, our core processing system has not fully captured loan-to-value ratios on specific types of loans. Many labor hours will have to be endured to manually transfer LTV ratios from the loan files to our mainframe computer for capital computation purposes.
- Subjecting Botetourt Bankshares, Inc. to the entire Basel III capital regime will create competitive disadvantages. For example, strategic initiatives involving capital outlays may be postponed until the final ruling and quantified impact for my organization are determined. This delay in executing our strategic plans will come at a competitive cost.

Request:

- Revise the proposed rules to exempt small holding companies with assets of $500 million or less from the Basel III capital rule regime similarly to the Federal Reserve's long standing policy position exempting small bank holding companies with assets of $500 million or less.

The Basel III proposes that unrealized gains and losses on a banking organization's Available-For-Sale (AFS) securities to "flow through" to common equity Tier 1 capital. Under the current risk-based capital rules, unrealized gains and losses that exist in accumulated other comprehensive income on AFS debt securities are not included in regulatory capital. Allowing unrealized gains and losses to flow through capital would negatively impact the ability of banking organizations to contribute to the economic recovery in a rising interest rate environment. With the inclusion of unrealized losses of AFS securities in CET1, rising interest rates would put downward pressure on banking organizations' capital levels, potentially causing banking organizations to reduce the growth of or shrink their securities portfolios considerably to maintain capital ratios at desired or required levels.

Because of the substantial volatility introduced into capital measurements, it would force banks to maintain ratios substantially above the levels that would otherwise apply in order to avoid the sanctions applicable to banks that fall into the capital conservation buffer.

Overall, this element of the proposal would bring too much unnecessary volatility in calculating capital ratios to our organization.

Request:

- Revise the proposed rules so 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.

- If the Agencies are determined to require all unrealized gains and losses to flow through capital, I strongly request that unrealized gains and losses that predominantly result from changes in interest rate risk should be carved out. In other words, the Agencies should consider filtering unrealized gains and losses for securities that do not have credit risk. This approach would exclude from regulatory capital unrealized gains and losses resulting from such low-risk securities as U.S. government and agency debt obligations and U.S. GSE debt obligations.

Bank of Botetourt is not presently impacted by the deduction of mortgage servicing assets that exceed 10% of Common Equity Tier 1. However, institutions of all sizes sell mortgage loans they originate to third parties like Freddie Mac and Fannie Mae and retain the right to service those loans. They retain the servicing so the customer interfaces with the bank that originated loan rather than the third party that owns the loan. Based on the capital treatment of the new proposal, some banks may choose to exit the mortgage servicing business impacting long standing customer relationships and reducing fee income, a disservice to our industry and its customers.

Request:

- Existing mortgage servicing assets should be grandfathered. It is simply unfair to penalize banks with long standing mortgage servicing assets because of change in position of the Basel committee.

While Bank of Botetourt does not have Trust Preferred Securities on our balance sheet, community banks throughout our country do. Phasing out this source of capital especially burdens community banks in their capital plans. The spirit of the current proposal is inconsistent with the Dodd-Frank legislation, which never intended for this type of instrument to be phased-out for community banks.

Request:

- The proposed rule should be revised to fully recognize the intent of the Collins amendment by permanently grandfathering outstanding Trust Preferred Securities for institutions between $500 million and $15 billion.

Bank of Botetourt clears and settles each day with a bankers' bank in the Commonwealth of Virginia. Stock ownership in the specific bankers' bank is a common requirement. I feel that we will be unfairly penalized by the proposed new risk weighting assignment for bankers' bank stock. Our clearing bank provides invaluable service to us. Our capital ratios will be negatively impacted due to the change in risk weighting. In reality there is no increased risk in our relationship with this bank, as we continually monitor their organization under Regulation F. It is an unfair penalty being imposed.

Request:

- Remove the risk penalty associated with bankers' banks risk weighting.

The proposed "one size fits all" model of the Basel III rules is not practical for smaller community banks and bank holding companies. Needed revisions to the proposed language and/or exempting small community banks, such as Bank of Botetourt, will have a positive impact on our organization and ultimately our customers. I ask that you help mitigate the challenges the proposed rules will create for community banks such as Bank of Botetourt and offer alternate and less complex rules for noncomplex banking organizations.

Sincerely,

Michelle A. Crook

Michelle A. Crook
SVP & CFO