OC12-194

Bank of Botetourt

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July 30, 2012

Mr. Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

I am writing to comment on the joint proposed rules on minimum regulatory capital and the standardized approach for risk-weighted assets titled *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action* and *Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements*.

The size, scope, and impact of these proposals represent a challenging obstacle for community banks like mine. The proposed rules are presented for review at a time of extensive economic difficulty for both the domestic and global economy. The precise changes to the levels of community bank regulatory capital by these proposals, with their radical impact on definition and calculation methodologies, present complex questions and challenges that prevent banks such as Bank of Botetourt from quickly and easily understanding the regulatory framework and its impact on us and the communities we serve. For example, the proposals seek to redefine the components of core regulatory capital by focusing on common equity including accumulated other comprehensive income (AOCI). As you are well aware, AOCI captures unrealized gains and losses on certain investment securities and has the potential to demonstrate extensive volatility depending on the sensitivities of bank security portfolios to changes in interest rates and credit spreads. We will need to conduct a sensitivity analysis on these investment securities to understand the potential impact of inclusion of unrealized gains and losses on their minimum regulatory capital levels. In addition, these challenges are amplified by the fact that interest rates are at historical lows setting the stage for future capital level declines in an eventual rising interest rate environment.

Additionally, risk weights for residential mortgage assets will further deplete capital levels by requiring additional capital cushions for certain residential mortgage loans that do not fit within a narrow definition of assets qualifying for preferable treatment. As a small community bank, we will need to conduct an analysis of residential loan portfolios to understand which assets will fall within the associated residential loan categories and how their classification will impact future capital levels. This is a challenging project given the data input that would be required within the limitations of our core computer system. Not only is the impact nearly impossible to calculate at this stage of the rulemaking process, it will take time to input loan data, such as loan-to-values, in order to generate accurate information on schedule RC-R. Further complicating the Basel III review process is the fact that the CFPB has proposed complex rules regarding mortgage disclosures

Our community bank is heavily reliant on the advocacy efforts of our trade association groups, the ICBA and the ABA. Both organizations have asked for a 90 day extension of the comment period that will help them help us study and understand the proposals and assess the impact on our bank balance sheet, ownership structure, general operation, and systems capabilities or limitations.

I ask that you reassess the practicality of the comment period for the proposals and honor the request to extend the comment period. I further 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