WOODSBORO BANK

MEMBER FDIC

September 27, 2012

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Sent via e-mail: comments@FDIC.gov

Re: Proposed Capital Rules: Basel III FDIC RIN3064-AD95, RIN3064-AD96 and RID3064-AD97

Dear Sirs:

Thank you for this opportunity to comment on the Basel III proposed rules. As a way of background, Woodsboro Bank is a local community bank that has been serving its customers and community in the northern and central portions of Frederick County, Maryland since May 1, 1899. Woodsboro Bank operates seven branch offices and has 72 employees with approximately $230 million in assets and is not publicly traded.

We are proud of the fact that we have been a well capitalized bank that has paid interest on deposits and paid dividends to our shareholders continuously throughout our history, a history that includes the great depression as well as the most recent financial crisis. Our customers have chosen Woodsboro Bank because of our one-on-one personal service and attention to their banking needs, our willingness to see them as individuals and not as account numbers.

Woodsboro Bank will be affected greatly by the Basel III proposed rules. Based upon the model that we used, Woodsboro Bank will no longer be considered to be well capitalized for the first time in its history by 2018. The combination of the major changes in the risk weightings of assets and changes in the capital components has a devastating impact on our risk based capital calculations. Woodsboro Bank will be forced to change its asset composition and place severe limits on asset growth which will make it extremely difficult to absorb increased operating costs brought about by the increasing regulations. It is our belief that Basel III will greatly affect our ability to serve our customers by forcing us to eliminate products they have willingly utilized and needed, and by our increasing fees to cover the ever increasing costs of compliance with the Basel requirements.

The proposed rules will create a much higher level of uncertainty in capital planning and make planning in general very difficult. Capital planning will be complicated by the added volatility of capital as a result of the proposed rules regarding gains and losses on securities. The proposed

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rules will force banks to seek more capital at a time when it is very difficult to raise capital. In addition, more banks will be trying to raise capital at the same time which will further complicate the effort to raise capital. We being a non-publicly traded, non-listed stock will be at an additional disadvantage when competing for capital against banks whose stock is considered readily marketable.

These proposed rules in combination with the increased regulatory burden caused by the Dodd-Frank Act will force many smaller banks to either close or find merger partners. In either case, the local communities that are served by the community banks will be harmed (a smaller bank tends to be more community focused).

Woodsboro Bank would strongly encourage that the Basel III proposed rules be made applicable to the larger or more complex institutions, institutions whose business models are inherently more risky than the traditional community banking model. The current rules being used by the regulatory bodies are adequate for smaller community banks. Currently, "problem" banks are readily identified by using the existing rules. The current rules being used at the smaller institutions would give more flexibility to examiners in dealing with the smaller non-complex banks.

Specifically, Regulatory Capital, Implementation of Basel III, FDIC RIN3064-AD95 proposes that unrealized gains and losses on all AFS securities would flow-through to common equity tier 1 capital. This would include those unrealized gains and losses from debt securities whose valuations primarily change as a result of fluctuations in a benchmark interest rate, as opposed to changes in credit risk. Woodsboro Bank had an unrealized gain of $1,511,093 as of June 30, 2012 which resulted in an accumulated other comprehensive income capital component of $915,042. However, this proposal is being presented during a period of historically low interest rates which would cause abnormally high unrealized gains. In a period of increasing rates, these unrealized gains will disappear and turn to unrealized losses. Woodsboro Bank's unrealized gain virtually disappears in an up 300 basis point shock. This proposed rule will force Woodsboro Bank to place newly purchased securities in the held-to-maturity category which will tend to increase the Bank's liquidity risk. Woodsboro Bank would encourage the regulatory bodies to reconsider this aspect of the proposed rule, and eliminate this part of the proposed capital rules or at a minimum institute a "grandfather" rule for securities purchased before January 1, 2015.

Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements, FDIC RIN3064-AD96, has by far the greatest negative impact on Woodsboro Bank. While most all banks would pass the capital requirements today, this proposed rule is being presented at a time when banks, including Woodsboro Bank, are extremely liquid and are keeping large cash reserves at the Federal Reserve (0% risk weight) due to lack of qualified loans and investments. As the economy recovers bank reserves would normally go into loans and investments that help the economy grow. Due to the change in risk weighting of loans and investments the proposed rule will tend to reduce the number of loans being made at a time when the economy needs banks to fund loans to bring about economic growth. Banks will tend to keep more assets in the lower risk weighted assets (cash and investments in US Treasuries and agencies) in order to maintain the comply with the new minimum capital standards.

Woodsboro Bank had a Tier 1 Risk Based Capital ratio of 13.02% and a Total Risk Based Ratio of 14.29% at June 30, 2012 using the current regulatory rules. Using a model developed by Farrin & Associates that accounts for the phase-ins and changes in risk weightings, those ratios decrease by one-third or approximately 470 basis points to 8.34% for Tier 1 Risk Based Capital ratio and 9.60% for Total Risk Based Ratio at January 1, 2019.

Woodsboro Bank had $34.4 million in residential balloon mortgages at June 30, 2012 which will move from a 50% risk rating to a minimum of a 100% risk weighting. The proposed rules discourage the use of balloon mortgages which will greatly increase the Bank's interest rate risk. Our current balloon offerings are for a customer who either wants to deal directly with a bank they know and will keep the servicing rights or have a circumstance that prevents them from obtaining financing in a conventional mortgage product. In fact, Woodsboro Bank takes pride in trying to work with its customers during difficult circumstances. We have only had to foreclose on one residential balloon mortgage loan that was a customer's residence in the past five years. In addition, there have only been two foreclosures on other balloon loans (secured by investment/rental properties) in the same five year period. We have found that customers will handle the new pricing at the maturity of their balloon loan by either simply renewing their loan with us using the balloon product or finding a conventional loan elsewhere. With the new proposed rules, Woodsboro Bank may be forced to discontinue offering residential mortgages to its customers or if the product is offered the pricing will need to increase (both options will be detrimental to our customers). This rule is in direct opposition to the Community Reinvestment Act which confirms our commitment to offer loans and services which help meet the credit and deposit needs of all of the communities in our assessment area, including low- and moderate-income areas individuals consistent with safe and sound operations.

We encourage you to reconsider including balloon residential real estate in Category 2 loans and keeping them as Category 1 loans which is consistent with the current rules or at a minimum institute a "grandfather" rule for balloon loans settled before January 1, 2015.

As stated above, Woodsboro Bank takes pride in trying to work with its customers during difficult circumstances and tries to avoid the foreclosure process. The proposed rules will encourage banks to speed the foreclosure process (banks will be less willing to work with customers) since the risk weight for Other Real Estate Owned is less than a delinquent loan.

The proposed rule changes in risk weightings for loans. The rule should have considered the reserve for loan losses related to a loan (either by specific or general provision) and provided for a netting. Capital has already been reduced by the reduction in net income by the loan loss provision; therefore netting would seem to be appropriate.

Woodsboro Bank will no longer be able to offer acquisition and development loans to the small business owners which will force customers to seek financing from non-traditional sources that are not regulated. This may cause more harm than good. The mortgage meltdown was caused by the unregulated mortgage brokers and not the regulated community banks. Woodsboro Bank along with all the community banks has been hurt greatly from the unintended fallout caused by the Dodd-Frank Act. It is our hope that the regulators take a prudent amount of time to prevent unintended fallout from these rules.

There is no mention of how the proposed new accounting rules for leases will be handled by the proposed risk weighting rules. If the lease treatment is similar to GAAP, this will add millions of dollars to assets with a 100% risk rating. This will cause a further diminution in the capital ratios. Woodsboro Bank did not include this change in its modeling since the proposed rules did not specifically address the issue.

The proposed rules will expand the advantages that credit unions enjoy over banks by being exempt from these rules as well as taxation at a time when the NCUA is trying to expand the lending authority to businesses. It is time to level the playing field by revoking the tax exemption for credit unions and have them under the same set of rules as banks.

In summary, Woodsboro strongly recommends that the regulators reconsider applying the same rules for all sizes of banks and "carve-out" an exception for smaller banks. If an exemption cannot be accomplished, consideration should be given to modify some of the risk weighting rules (especially for loans) for the smaller non-complex banks.

Thank you for the opportunity to comment on these proposed rules. I am hopeful that something can be done to change the initial rules. The independence of the small community banks that have been the backbone of their local communities is dependent on the regulatory agencies doing the right thing and changing the applicability of or modifying these rules. If there any questions or if there is any clarification needed about this response, please contact either of us at dsummers@woodsborobank.com or rmiller@woodsborobank.com or by phone at (301) 898-4000.

Sincerely,

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