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LEE MILAM, JR.
PRESIDENT

Member FDIC

October 3, 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, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. As Chief Financial Officer of an $80 million community bank in southern West Virginia, I am extremely concerned by the capital proposals within Basel III. Making Basel III regulations applicable to community banks will cripple not only the community banks themselves, but more importantly the communities which they serve. Community banks operate on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. The new, strict capital proposals within Basel III

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

are designed for the largest banks that have global risks that make these larger institutions more vulnerable to extreme losses.

Including accumulated other comprehensive income (AOCI) in a community bank's capital will significantly increase the volatility in regulatory capital balances. Like most community banks, the only AOCI my bank reports is related to the unrealized gain or loss due to available for sale securities. Under the extreme economic conditions we have been faced with in recent years, a bank could look extremely sound from the unrealized gains reported for available for sale securities, when in actuality they have an inadequate capital cushion or vice versa.

The capital conservation buffer will be near impossible for most community banks to reach. Unlike the largest banks in the country, community banks typically have one way to raise capital: accumulation of retained earnings. Due to the historically low rate environment and harsh regulatory environment we are currently in, it is next to impossible to increase earnings through either interest or fees. If regulators are not willing to exempt community banks from the capital conservation buffers, additional time needs to be allotted for community banks to grow the additional capital to retain and accumulate earnings accordingly.

The proposed risk weight framework under Basel III is extremely complicated and will be a major regulatory burden that will penalize community banks and those within the community wishing to purchase or refinance a home. This complicated framework could force many community banks to exit the residential loan market entirely. If community banks aren't able to lend money to those in need in the community, this could jeopardize the housing recovery. Furthermore, the significant software upgrades that will be required to keep up with the risk weight framework will only hinder a community banks ability to raise capital even more. The operational costs will significantly impact a community bank's earning; and once again, accumulation of retained earnings is the only option for capital growth for a community bank.

The current laws and regulations that are currently in place for banks are adequate. What is lacking is the regulatory enforcement. As difficult as it is to go through an exam from the West Virginia FDIC regulators, we appreciate the fact that they have made West Virginia banks among the strongest in the nation.

Please reconsider the adoption of Basel III for community banks. The intense capital requirements will hinder community banks nationwide and make it nearly impossible for us to serve those within our communities.

Sincerely,

Christina M. Cabell

Christina M. Cabell
Chief Financial Officer
Whitesville State Bank