



October 18, 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, S.W.
Mail Stop 2-3
Washington, D.C. 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:

I would like to thank you for the opportunity to comment on the Basel III proposals that were recently approved by the banking agencies.

Chesapeake Bank was originally founded on April 20, 1900 as Lancaster National Bank in Irvington, Virginia, with a single office across the road from the steamboat dock. The bank is now \$629 million, a community bank, with 11 branches and a loan production office serving at least four rural counties of eastern Virginia and the city of Williamsburg and has maintained an office in Irvington to this day. Historically, the primary business engine was farming and fishing and this has transitioned to a combination of the old and the addition of new professional and retirement based, fixed income, economy including many small businesses. These small businesses have been in a retrenchment mode for several years, retiring debt and conserving cash and this has severely reduced loan demand.

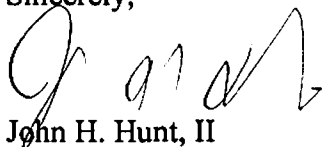
The capital requirements for Basel III seem disproportionately harsh for community banks that have already been saddled with enormous compliance burdens from Dodd-Frank and the Consumer Financial Protection Bureau. Some estimates show 500-1,000 community banks will cease to exist in the next five years due to the unsustainable burdens of regulatory compliance imposed by new rules and regulations when, ironically, the community banking system was not at fault for abuses that prompted such over regulation. Also, community banks are not leveraged with material off-balance sheet liabilities as are the larger banks.

The requirement of recognizing unrealized gains and losses on available-for-sale securities, reported through OCI (other comprehensive income), will have a substantial impact on Chesapeake's capital accounts. The OCI numbers are already captured for the reader of financial statements and it is an *unrealized* number. Adding this OCI component to the Basel III capital calculation injects unnecessary volatility into the critical review of capital adequacy. I have to believe that there will be "shadow" calculations by the field examiners so everyone will be on a different page. This will have unintended consequences for loan limits and investment decisions. Plus, implementing this in a period of absolutely low interest rates will exacerbate the problem.

By definition a number of loans that a community bank makes will not fit the "conforming" loan model so additional stress will be placed on capital for purely accounting reasons without any evidence of defaults in the community bank system. Community banks strive to accommodate lending needs of fellow members of the community in which we live. Likewise, the additional capital pressure of the risk-weighting by loan type and/or delinquency will add enormous bookkeeping and data gathering just to comply. The heavily regulated reserve for loan loss process already provides for appropriate capital allocations for these components. A community bank is typically the "economic engine" for the area they serve and these requirements will add significant costs to the community bank bottom line and impair lending ability in an already fragile economic climate.

In summary, the implementation of Basel III as proposed would significantly impact Chesapeake Bank's ability to service its customers and provide lending capacity for future economic expansion.

Sincerely,



John H. Hunt, II
Executive Vice President &
Chief Financial Officer

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