FIRST NATIONAL BANK
Since 1888

October 5, 2012

Jennifer Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Email regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E. Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
Email regs.comments@occ.treas.gov

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

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Reserve Board, The Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I support capital requirements for banks in our country to ensure that our industry can be prepared for challenges in the future. It is a common goal we share. However, I have concerns about the proposals which have been approved by the agencies and placed for comment.

First National Bank was formed in 1888 in Ronceverte, West Virginia. Since that time, First National has grown to a $261,000,000 community bank with six offices in West Virginia and Virginia. We are a community bank for rural communities including Ronceverte, Lewisburg and White Sulphur Springs West Virginia, as well as Covington and Hot Springs, Virginia. We lend to a variety of businesses located in the towns we serve. Most of our customers are small businesses, ranging from restaurants, retail, physicians, pharmacies, agriculture, manufacturing and transportation.

Like most other community banks, we want to ensure we are able to continue to serve our communities as we have in the past, providing loans and capital to fund small businesses which, in turn, create jobs that support a workforce that is stable; thus resulting in a strengthened economy.

- The Capital Requirements of Basel III, are out of sync for small community banks. Small banks, such as First National Bank, were not part of the national economic collapse brought on by large banks that acted with reckless abandon providing mortgage loans while misusing the sub-prime and Alt A residential loans made outside the banking system and securitized by large investment banks. We were a bank that did not have to accept the Troubled Asset Recovery Program (T.A.R.P.) in 2008 which provided $700 billion to banks with toxic mortgages. Community banks were working under a different model, one in which we are much more familiar with our customers and risks associated with lending to local customers.

- The requirements of recognizing unrealized gains and losses on available-for-sale securities will have a substantial impact on our bank's capital accounts. Market fluctuations will cause volatility of the bank's capital and storing capital over and beyond the normal business cycle limits the bank's ability to manage the investment portfolio in a manner appropriate for liquidity and earnings. The asset side of our ledger continues to tilt towards increases in short-term cash equivalents and the securities portfolio, as loan demand has been very soft over the past two years due to a languishing economy. As a result, the impact of this change is magnified.

- The proposed rules regarding residential mortgages will make mortgage loans more difficult to obtain in many markets, such as those typically served by community banks like First National Bank. The mortgage loans we keep on our books are Adjustable Rate Mortgages so that we can manage the interest rate risk. The typical community bank, like ours, cannot book and maintain 15 and 30 year fixed rate loans due to the interest rate risk inherent in those loan types. Requiring a higher risk rating of those loans, thus requires more capital, increasing the cost of the credit and reducing the availability of credit in our markets. Because we are in 100% rural areas, many of our mortgage loans may not meet certain criteria, such as land size in acres versus lots or paved roads versus gravel roads.

- Loan losses have been elevated for our bank and other banks. This increase in loss experience necessitated the additional loan loss provision. Additionally, a soft real estate environment in some of our markets has made it difficult to sell foreclosure properties in a timely manner. Selling the properties without absorbing additional write-downs or losses remains a challenge. Increasing risk weights on delinquent loans is yet another repetitive means of raising capital requirements. Delinquent loans must be considered in the ALLL analysis. Community banks are already highly regulated in this regard and criticized severely if not adequately recognizing the need for capital to mitigate the risks of delinquency in the ALLL analysis. The proposed capital calculation is both unfair and unnecessary for community banks.

- The proposed rules will most likely require additional collection and reporting of new information. This will necessitate software, systems, and perhaps personnel. We will be in a repetitive cycle of assigning and reassigning risk weightings on the classes of loans identified on the proposal, spending countless time to continually re-evaluate the risk based on changes in collateral values, past due status, and other risk factors.

The proposal will, in deed mean change. However, I feel, the real change will be the change on Main Street. The proposed risk-weighting rules will require banks to tie up more capital with certain asset classes, which will cause banks to increase their pricing of those assets in order to achieve the same return on equity. That narrowing will impact both the supply and demand sides of the economic equation. At the end of the day, these changes will lead to a slower recovery of the economy related to housing and development. Please consider the far-reaching negative impacts the new rules will have on community banks.

Sincerely,

Matthew L. Burns

Matthew L. Burns
President and CEO
First National Bank