FNB BANK

October 11, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 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, NW
Washington, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals 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. My following commentary will reflect the affect the implementation of Basel III Capital Proposals would have not only on FNB Bank, Inc., but other small community banks as well.

Applicability of Basel III to our Community Bank:

Community Banks should be allowed to continue using the current Basel I framework for computing capital requirements. Basel III, in my opinion was designed to apply to the large banks and not community banks. Community banks operate on a relationship-based business model that is specific to our customer and our local area versus the large banks that may even deal internationally. Larger banks operate more on transaction volume with less attention to the customer relationship. The difference in the two respective business models alone justifies the need to place tougher capital standards on the larger banks, giving the larger banks the ability to better manage the ability to absorb losses.

105 North High Street • PO Box 1037 • Romney, WV 26757 • (304) 822-8700 or 1-800-482-8110
fax: (304) 822-5309 • e-mail: info@fnbromney.com • website: fnbromney.com

Incorporating AOCI as Part of Regulatory Capital:

Inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. In most community banks, AOCI would reflect unrealized gains and losses on investment securities held available-for-sale. Such securities are held at fair value and any gains or losses due to changes in interest rates are captured in the valuation.
Over the past few years, both short-term and long-term interest rates have fallen to historic lows, generating unprecedented, unrealized gains for most investment securities. At the same time, demand for government guaranteed securities has risen due to a flight to safety and government intervention in the capital markets. The increased demand has caused credit spreads to tighten further increasing bond valuations.

Once the economy recovery begins interest rates will rise and fair values will fall causing the balance of AOCI to decline and become negative. This decline will have a direct, immediate impact on common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At my bank, for instance, if interest rates increased by 300 basis points, my bank's bond portfolio would reflect a paper loss of $6,000,000. This would mean that my bank's tier one ratio would drop by 2%.

Community banks do not have the ability, as large banks do, to mitigate the risks of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes with the use of interest rate derivatives like interest rate swaps, option, and futures contracts. We, as community banks, do not have the knowledge or expertise to engage in these transactions and manage their associated risks, costs, and barriers to entry. Community banks should continue to exclude AOCI from capital measures as they are currently required to do today.

Mortgage Servicing Rights:

I find the proposal unreasonable for those banks that have large portfolios of mortgage servicing rights to be penalized on their existing mortgage servicing assets. Any mortgage servicing rights existing on community bank balance sheets should be allowed to continue to follow the current risk weight and deduction methodologies.

Subchapter S Community Banks:

Imposing distribution prohibitions on community banks with a Subchapter S corporate structure conflicts with the requirement that shareholders pay income taxes on earned income. Those banks with a Subchapter S capital structure would need to be exempt from the capital conservation buffers to ensure that their shareholders do not violate the provisions of the Internal Revenue Code. I recommend that the capital conservation buffers be suspended during those periods where the bank generates taxable income for the shareholder.

Sincerely,

Richard R. Hamblin
President & CEO