OLD POINT
NATIONAL BANK
Real. Friendly.

Laurie D. Grabow
Executive Vice President & Chief Financial Officer
PO Box 3392
Hampton, VA 23663

September 25, 2012

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, CD 20219
Delivered via email Regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street & Constitution Ave, NW
Washington, DC 20551
Delivered via email
Regs.comments@federalreserve.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Delivered via email comments@FDIC.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to comment on the Basel III proposals. The Old Point National Bank of Phoebus (the Bank) is a national banking association that was founded in 1922. As of the end of 2011, the Bank has 21 branch offices serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James city County, York County and Isle of Wight County. The Bank offers a complete line of consumer, mortgage and business banking services, including loan, deposit and cash management services to individual and business customers.

As of December 31, 2011, the Bank had assets of $845.3 million, loans of $520.5 million, deposits of $691.3.9 million and stockholders' equity of $80.6 million. In 2011 the Bank sponsored and partnered with over 250 unique events and charitable organization in Hampton Roads and plans to continue to help build a better community in the years to come.

The Bank is in support of increasing the capital requirements for US banks to ensure the banking industry can handle any economic downturn that may occur in the future. However, Old Point is concerned about the Basel III Capital proposals which have been approved by agencies and are currently out for comment.

The following are the areas of concern for Old Point related to the Basel III Capital Proposals:

1. **Inclusion of unrealized gains and losses on available for sale securities in regulatory capital.**

   As proposed, unrealized gains and losses on all available for sale securities would flow through to common equity tier 1 capital. This would include unrealized gains and losses related to debt securities whose valuations primarily change as a result of fluctuations in a benchmark interest rate, as opposed to changes in credit risk.

   The United States is in an unprecedented period of low interest rates. Most banks have significant gains in their investment portfolios. When interest rates begin to rise, these gains will quickly evaporate and portfolios could have significant unrealized losses. Including unrealized gains or losses caused by fluctuations in interest rates does not paint a true picture of a Bank's capital strength; especially if the Bank has the ability to hold the investments until maturity.

   If unrealized gains and losses on available for sale securities are included in regulatory capital, Old Point will need to consider the following in order to maintain its capital ratios at an acceptable level:

   - Shorten the duration of the investment portfolio, which would have a negative affect on future income.
   - Sell the AFS securities and place all future purchases in the held to maturity category. This action would eliminate our ability to utilize the investment portfolio for liquidity needs or to manage interest rate risk.

2. **Increased risk weighting for residential mortgage loans.**

   The proposed rules regarding residential mortgages will make mortgage loans more difficult to obtain in many markets. A community bank like ours cannot book and maintain 15 to 30 year fixed rate loans due to the interest rate risk inherent in these loan portfolios. Most of the residential mortgages booked by our bank have a balloon option, which gives us the means to manage interest rate risk. The proposed rules require a higher risk rating for a residential loan with a balloon payment, which would require more capital.

   The current capital regulations assign risk weights to asset classes, such as loans secured by 1 to 4 residential properties. The proposed rule assigns risk weights to individual loans, which will cause the Bank to hire additional staff. In order to obtain the loan to value ratios at the loan level each loan currently on our books would have to be reviewed. Also, for new loans, a risk weighting will needed to be assigned when the loan is booked. In addition, a system would need to be put in place that continually re-evaluates the risk weighting based on changes in collateral values and other risk factors. This would be very time consuming and costly. In lieu of evaluating and re-evaluating the residential mortgage portfolio, our Bank may opt to place all residential mortgage loans in the 200%

risk weighting category. This option would require more capital. Under the current regulatory capital system residential mortgages are in the 50% risk weighting category.

3. **Change in risk weighting for home equity and second lien loans.**
   As of June 30, 2012, our Bank held $15.5 million in second lien loans to customers in our market. Increasing the risk weighting for second lien loans from 100% in the current capital regulations to 200% as proposed seems excessive. Second lien loans usually yield higher interest rates to compensate for the added risk. In addition, it seems redundant to require banks to hold more capital to offset risk in the loan portfolio, when banks are required to assess and provide loan loss reserves in the analysis of loan and lease loss calculations.

4. **New rules regarding " High Volatility Commercial Real Estate"**
   The separation of commercial acquisition and development or construction loans that do not meet loan to value and borrower contribution standards is understandable and appears reasonable on its surface. These loans are of higher risk. However, for a community bank to monitor each loan within the acquisition and development portfolio and verify that all criteria are met for a loan to be placed in a 100% risk rating category versus a 150% risk rating category may not be cost effective. As of June 30, 2012, Old Point held $12.7 million in commercial acquisition and development loans.

5. **Change to risk weights on delinquent loans.**
   Banks already set aside reserves for loans that fall into a past due status. Increasing the risk rating from 100% to 150% means that a bank would be setting aside funds for these loans twice.

In conclusion, the proposal as it is currently written will greatly impact our bank. It will significantly increase the amount of capital we will need to hold. In addition, we cannot currently determine how much time will be needed to fully understand the rules, train our staff on how to apply the rules to our institution, implement coding for each individual loan in our portfolio that is affected by the new rules and re-program our core possessing system to handle the new coding requirements. Reports will need to be generated to provide the coding in a usable format. If these regulations are passed as proposed, grandfathering existing loans would at least mean that bank personnel would not have to examine all loans currently in the portfolio, a time consuming process.

It was not community banks that caused the current economic downturn. We urge you to consider to effect that Basel III will have on community banks and consider changing the rules or providing an exemption for community banks from the bulk of these rules.

Sincerely,

Laurie D Grabow
EVP/CFO
The Old Point National Bank of Phoebus