VILLAGE
BANK

October 15, 2012

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington DC 20551

Dear Regulators:

In my position as a director for a Virginia-based community bank, I would like to express my thoughts regarding the Basel III Regulatory Capital Ratios Proposal and Risk-Weighted Assets Proposal, which I shall jointly refer to herein as the "Basel III Proposals."

While the proliferation of ever-tightening financial regulations is clearly the result of the wide-spread banking crises occurring over the last six years, it is healthy to consider that regulation can sometimes be onerous and have the opposite effect of its intended purpose. I submit that the Basel III Proposals fit precisely into that category.

Increasing the required capital ratios and risk weights for many bank assets will impose both an excessive and imprudent burden on community banks. While the proposals are problematic on multiple levels, requiring excessive capital that banks will park in safe and concomitantly low return investments will only increase the already challenging landscape for raising common equity. There is clearly a point in which increased capital requirements result in a lower return to investors, whose decision to invest in a community bank is based upon the bank's return on equity tempered with the non-monetary value the bank brings to the locality.

Community banks are finding it extraordinarily difficult to raise capital to bring them into compliance with existing capital ratios. When they are successful in doing so, the result is often a virtual sale of the bank to an out-of-the-area individual or small group of investors who are bent exclusively on growing profit at the expense of serving local community needs.

There is a converse relationship between spiraling capital ratios and lending volume. Requiring more capital to offset increased risk-weighted assets will necessarily reduce a community bank's lending volume. Village Bank is a local central Virginia bank with assets of approximately five hundred million dollars. For each dollar of capital that Village Bank cannot raise by common equity or other means, it will need to reduce its lending ten dollars. If, as many say, it will be small business and real estate transactions that lead us out of our current economic doldrums, the Basel III Proposals will unquestionably have a chilling effect on both.

Community Banks, like Village Bank, have been and continue to be the economic lifeblood of small and medium-sized population centers. They offer a vital and necessary alternative to large banking institutions whose bottom line typically dictates their target borrowing customers. Saddling community banks with greater capital regulatory capital requirements will ultimately squeeze out that small but vital local entrepreneur. That very same borrower starting a new business will be forced to turn to less regulated, quasi lending institutions whose credits are more costly and whose originators are likely less to assume the role of a mentor to his customer.

Large, internationally-based banks whose operations theoretically impact the national economy may be natural candidates for increased regulatory capital; small banks, however, like Village Bank, are in a completely different league. Like banks comparably sized, Village Bank's safety and soundness practices are continuously monitored both internally and externally; untoward practices are quickly detected and repaired; we do not invest in high risk instruments; and our overall existing compliance burden makes it extraordinarily unlikely that layering on additional regulations will be salutary. A tiered, common sense application of Basel III, is what is called for, not a one-size-fits all regulation.

At Village Bank, our existing compliance obligations are nothing short of extraordinary. They are costly, burdensome and often ineffective. It is difficult enough doing business within the existing regulatory environment without adding on a costly, confusing and complex regulation. It is for these reasons that I respectfully request that the Basel III Proposals be withdrawn to exclude community banks from its umbrella.

Sincerely,

Michael A. Katzen
Board Member, Village Bank

cc: The Honorable Eric Cantor
The Honorable Randy Forbes
The Honorable Mark Warner
Matt Bruning, Virginia Bankers Association
Cecelia Calaby, American Bankers Association