August 23, 2012

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

Dear Ms. Johnson:

I write you this letter concerning Basel III and its impact on community banks. Warren Bank is a $140 million community bank with a 14% capital base. The requirements for community banks regarding Basel III are so complex that it will be hard for a bank of our size to survive.

For example, Basel III contains a requirement that unrealized gains and losses in the securities portfolio flow through to regulatory capital. This means that if there is a change in the value of an available for sale security that security must immediately be accounted for in regulatory capital. Unrealized gains or losses occur in portfolios primarily as a result of movements in interest rates as opposed to changes resulting from credit risk. As you know, interest rates fluctuate daily and as a result the proposed rule with introduce significant volatility into capital calculations. In addition, the bank does not have the staff or time resource to calculate the securities portfolio effect on capital on a daily basis.

Another proposed rule relates to mortgages. Under the proposed rule the bank will be required to re-assess a mortgage after a loan restructuring or modification. The proposed rule also requires that all mortgage loans currently on the banks books be subject to the new capital requirements. As a result, the bank will be required to examine old mortgage underwriting files to determine the appropriate category and LTV ratio for each mortgage. This also serves as a difficult task for the bank to undertake.

I urge your organization to re-assess these rules that will surely be damaging to community banks all over the country. Warren Bank understands the need for regulation; however, these regulations will leave the country with fewer and fewer community banks under $1 billion due to the cost of compliance. Thank you.

Sincerely,

James Smith

James E. Smith
Senior Vice President

CC: Sen. John Boozman, Sen. Mark Pryor, Congressman Tim Griffin, Congressman Mike Ross, Congressman Steve Womack, Congressman Rick Crawford, FDIC, & OCC

Warren Bank
& Trust Company

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Sincerely,

Gerald Burton
Director

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Sincerely,

Kerry Pennington
Director

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Sincerely,

Carlton E. Davis

Carlton E. Davis, CPA
Director

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Sincerely,

Donnie R. Bryant, D.D.S.
Director

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Sincerely,

Kelly Ashcraft

Kelly Ashcraft
Senior Vice President

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Sincerely,

Hunter W. Johnson
Senior Vice President

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Sincerely,

John B. Frazer, Jr.
Chairman & President

CC: Sen. John Boozman, Sen. Mark Pryor, Congressman Tim Griffin, Congressman Mike Ross, Congressman Steve Womack, Congressman Rick Crawford, FDIC, & OCC

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