Freedom Bank
Member FDIC

315 Crim Avenue, Belington, WV 26250
Tel: (304) 823-1531
Fax: (304) 823-2950
http://www.FreedomBankWV.com

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 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, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] 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. Having been a former examiner with the OCC and seeing the real estate crisis in 2000's and the market crash of 2008, I agree with the concept that we need as much capital in our banking industry as can realistically be maintained in order to ensure the safety of our financial system. And having served as the CFO of a $150M bank for the past 13 years, I do not agree with the approach the Basel III is taking to achieve that.

After reviewing in detail the new requirements of Basel III and assessing the impact this regulation will have on our institution, I am very concerned about our future ability to service our community. As I stated previously, I do agree that more capital is good for the soundness of our banks, however, it appears that this regulation is more strict than it needs to be.

Not only does Basel III increase the minimum capital ratios but they also increase the risk weightings significantly as well as provide a "cushion" that needs to be maintained on top of that. I believe that using any one of these methods would be an appropriate method to provide

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more capital cushion for the community banking industry but using all of them at once is quite unreasonable in my opinion.

A specific example includes the Risk Weighting of past due loans by 150 to 200%. We are somewhat confused on how you can lose over 100% of an asset. Why do we need to reserve more than the balance, when that is all that we can lose. These numbers are adjusted quarterly and are very fluid, so the capital ratio should adjust accordingly as our past dues adjust WITHOUT having to allocate an extra 50 or 100% to the risk weighting. And as you are aware, there are numerous other areas that create more than a 100% risk weighting. While this may be a good way to add cushion to the capital ratios, there is already a cushion built in to Basel III as well as an increased minimum ratio. We do not understand why the risk weightings need to be increased too.

Another specific example includes the elimination of counting most forms of equity except "common stock" as Common Equity Capital. As a small community bank, it is very difficult for us to raise capital given our limited access to the Capital Markets. The new Basel III requirements for Common Equity will make it almost impossible for a community bank to raise the needed 'qualifying' capital to bring their capital ratios within the minimum guidelines if they face any kind of financial difficulty.

Of particular concern too is the impact that the Unrealized gain or loss amount will have on our capital ratios as market prices of investments fluctuate drastically during rising or falling interest rates. Our bank, as well as most other community banks, DO NOT purchase our investments with the intent of selling them to take market gains. We hold them for liquidity purposes. However, to be considered "liquid", we need to classify them as "Available for Sale" which triggers the unrealized gain/loss calculation. With the new Basel III requirements, as we hold our investments in a rising rate environment, our investments will have an unrealized loss that will REDUCE our capital amount and reduce our capital ratios. This unrealized gain or loss is typically an accounting adjustment, but Basel III will cause it to now have a financial impact on the bank and its ratings. On the flip side, I don't think you want to have a bank with an inflated capital ratio just because the bank happens to have a large unrealized gain in their portfolio during an interest rate downturn. Our bank has had to purchase investments in this low interest rate environment. Right now we have a $100,000 unrealized gain. However, it is guaranteed that once rates start increasing we WILL HAVE at least a $200,000 net unrealized loss that WILL have a negative impact on our capital levels. And these are numbers that will NOT be realized as losses to the bank, just accounting entries. The unrealized gain or loss SHOULD REMAIN an adjustment item when calculating the capital ratios as it is done now to avoid the market fluctuation impact on these numbers. It is my hope that this requirement is REVISED IMMEDIATELY.

I will conclude with a simple request that you re-evaluate the overreaching impact the Basel III guidelines will have on community banks and reconsider imposing this regulation on us. Again, I believe that any one of the changes would help strengthen our financial institutions, but using all 3 methods of increasing ratios, increasing risk weightings AND adding the cushion are more than we can stand.

Our bank is a $150M financial institution in West Virginia. We currently have 5 branches and consider ourselves a very community minded bank. We are very active in our communities and in the case of our Main Office, we are the heart of the small town of Belington with a population of under 2000. It is our belief that imposing the overburdensome restrictions of Basel III will have a direct impact on our ability to maintain value for our shareholders and provide the level of customer service our community deserves.

Thank you for your time and consideration. If you should wish to contact me, you can reach me at 304-823-1531 or tkittle@freedombankwv.com

Sincerely,

Terri Kittle
SVP/CFO