October 17, 2012

Via e-mail: regs.comments@federalreserve.gov.

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

Re: Basel III Regulatory Capital Ratios Proposal and Risk-Weighted Assets Proposal; Docket No. R–1430, RIN No. 7100–AD87; and Docket No. R–1442, RIN No. 7100-AD87.

Dear Ms. Johnson:

I write as President and CEO of Virginia Company Bank, a community bank headquartered in Newport News, Virginia with assets of approximately $145 million. This letter is in response to the Basel III Regulatory Capital Ratios Proposal and Risk-Weighted Assets Proposal (the "Basel III Proposals"). The Basel III Proposals were crafted to protect the safety and soundness of large international financial institutions offering complex financial services and products well beyond traditional commercial banking. However, applying the Basel III Proposals to banks focused on traditional banking activities, especially small community banks, will actually harm the safety and soundness of the American banking system by requiring excessive capital, unreasonably limiting qualifying capital, and driving up compliance costs with unduly complex regulations. These factors will drastically reduce lending, hurt consumers, businesses and communities, and critically damage the viability of our community banking system.

The Basel III Proposals will further erode our fragile economy.

The ability of a small bank such as ours to comply with additional complex regulations adds excessive costs to our organization. The costs of this heightened compliance do nothing to allow us to better serve the banking needs of the small businesses and citizens of our community. I was fortunate to meet with several of President Obama's advisors at the White House earlier this year. They were adamant that the top two initiatives of the administration were to create jobs and to facilitate the availability of capital to our nation's small businesses. This proposal will work against both of these important initiatives.

At some point, the additional costs of compliance will force many of our nation's smaller banks out of business which will have negative consequences on our employees, our clients and our local economy. Our organization employs thirty-three hard-working professionals who are paid relatively modest salaries – we are not the "fat cat" bankers that have drawn so much scrutiny. The associates of Virginia Company Bank give much of their time and money to support charitable organizations and causes in our local community. Negatively impacting our business model will only force massive consolidation within our industry as much larger economies of scale will be needed to handle the significantly higher level of overhead this proposal will entail. Consolidation of our community banking system will have the unintended consequence of eliminating jobs, charitable giving and volunteerism in our community.

The Basel III Proposals will negatively impact the terms and availability of capital.

The increased capital requirements will undoubtedly limit our ability to provide loans to benefit many of our clients. The new regulations will impact both the numerator and the denominator of the capital calculations by imposing unreasonable limits on qualified capital and impose complex new calculations on the determination of risk-weighted assets.

The risk-weighted assets regulations unreasonably penalize the core operations of many healthy, well-managed banks that have provided traditional banking products and services to their local communities for years. These core products and services include nonconforming mortgages, commercial loans, working with borrowers experiencing unexpected financial difficulties, and selling mortgages in the secondary market. Additionally, the unnecessarily complex rules require banks to gather extensive data about their loan portfolios and other assets and perform numerous complicated calculations to determine the applicable risk weights. This will drive up costs and lead many banks to stop offering these products and services.

The Basel III Proposals should not apply to community banks.

While the Basel III Proposals place undue burdens on banks of all sizes, imposing these overly restrictive and burdensome requirements on smaller community banks will have a crippling effect the traditional community banking system in this country and the consumers, businesses and local economies they serve. The international organization that drafted the Basel III standards designed them to apply to, and address issues unique to, large internationally active banks offering complex financial products outside the realm of traditional commercial banking. Community banks did not cause the recent financial crisis and do not have the resources to comply with these complex and burdensome requirements. And yet, the Basel III Proposals apply the same rigid, complex standards to banks of all sizes and types regardless of the riskiness of the products and services they provide. This should be fixed by exempting community banks from the Basel III Proposals.

Thank you for your consideration of our comments.

Sincerely,

Mark C. Hanna
President and CEO

Cc: Senator Mark R. Warner
Congressman Rob Wittman