Staff of the Federal Reserve Bank of Richmond (Reserve Bank) hosted the Virginia Community Banker Forum on September 20, 2012. Attendees from the Reserve Bank and the banking community are listed in the attachment to this document. During the Forum, a representative of the Reserve Bank made a presentation on the following Notices of Proposed Rulemaking (NPR):

- Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements (Docket No. R-1442)

In a question-and-answer session following the presentation, and during the course of informal communications throughout the evening, the community bankers expressed the following concerns regarding the NPRs:

- Bankers feel the risk-weighting treatment of residential mortgages is unfair. In particular, banks that originate and hold nonconforming residential mortgages will be subject to a 100% risk weight instead of 50% even though internal historical data suggests the loss rate is closer to 35%.
- Bankers whose banks have significant mortgage operations expressed concern regarding the proposed credit conversion factor for mortgages sold with standard recourse provisions (e.g. early payment default, fraud). They suggested that if they were required to carry capital against these loans, it would result in a significant reduction in production or the outright closure of the business line.
- Bankers expressed concerns that the new capital standards will make it very difficult for community banks to attract new common equity because the return will be less attractive for investors. This change will come at a time when raising additional common equity is sorely needed but incredibly challenging.
- Bankers expressed confusion and anger at the Agencies’ decision to eliminate the eligibility of trust preferred securities for banks less than $10 billion in assets, which is a stricter standard than that required in the Dodd-Frank Act.
- Bankers were concerned about the aggregate economic impact of the proposal. They were particularly concerned that the proposals would require most community banks to shrink, which will reduce lending opportunities at a time when economic recovery is needed.
Bankers predicted that the proposals would shift many community banks’ stockholder bases from community investors toward institutional investors. They viewed this change as detrimental to the long-term oversight of the institutions.
Attachment #1

Participants from the Federal Reserve Bank of Richmond
Steve Bareford, Dave Beck, Anne Burnett, Jennifer Burns, James Dail, Adam Drimer, David Fletcher, Joan Garton, Richard Gilbert, Sally Green, John Insley, Gene Johnson, Keith Larkin, Jim Lucas, Steve Malerba, Steve Malone, Barbara Moss, Chris Murphy, Winnie Patterson, Jason Schemmel, Lauren Ware

Participants from the Virginia Bureau of Financial Institutions
John Crockett, Joe Face

Participants from the Banking Industry
Robert Bailey Colonial Virginia Bank
G. William Beale Union First Market Bank
Paul Bice John Marshall Bank
Zirkle Blakey Peoples Community Bank
Alan Brill Capon Valley Bank
John Brough Chain Bridge Bank
Matt Bruning Virginia Bankers Association
George Cave Alliance Bank
Robert Chapman Bank of the James
Thomas Chmelik MainStreet Bank
Neal Crawford Monarch Bank
Jeffrey Culver Middleburg Bank
Lynda Cunningham Bank of McKenney
Jeff Dick MainStreet Bank
Bill Doyle Alliance Bancshares Corp.
Larry Heaton Franklin Community Bank
Michael Ives Heritage Bank
Tom Jacobi Chain Bridge Bank
Leigh Keogh Heritage Bank
Gaylon Layfield Xenith Bank
Richard Liles Bank of McKenney
Steve Lohr Franklin Federal Savings Bank
Herbert Marth Central Virginia Bank
John Maxwell John Marshall Bank
William McFaddin Community Bankers Bank
Nancy McManuels Heritage Bank
John Milleson Bank of Clarke County
Preston Moore Virginia Community Bank
Louis Morris Old Point National Bank
William Morrison Monarch Mortgage
John Neal Union First Market Bank
Thomas Osgood Xenith Bank
Rann Paynter Virginia Bankers Association
John Presley First Capital Bancorp, Inc.
Harold Rauner The Business Bank
Fred Rubin Access National Bank
Pat Satterfield Virginia Association of Community Bankers
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<td>Brad Schwartz</td>
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