



THE FEDERAL RESERVE BANK OF RICHMOND

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Virginia Community Banker Forum September 20, 2012

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)
- Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (Docket No. R-[XX])

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 Bankcorp, Inc.
Harold Rauner	The Business Bank
Fred Rubin	Access National Bank
Pat Satterfield	Virginia Association of Community Bankers

Brad Schwartz	Monarch Bank
Todd Scruggs	Bank of the James
Robert Shuford, Jr.	Old Point National Bank
Watts Steger	Bank of Botetourt
Pierce Stone	Virginia Community Bank
David Summers	Virginia Heritage Bank
Mel Tull	Virginia Bankers Association
Craig Underhill	Freedom Bank
Anne Vanderberry	Heritage Bank
Kate Wagner	Village Bank
Bob Watts	First Capital Bank
Richard Wheeler, Jr.	Franklin Federal Savings Bank
Bruce Whitehurst	Virginia Bankers Association
Edward Willingham	First Citizens Bank
Tom Winfree	Village Bank
Steve Yeakel	Virginia Association of Community Bankers
William Young	Virginia Partners Bank
Jack Zoeller	Bank of Virginia