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October 22, 2012

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman, Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
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 that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

The strength and stability of our banking system is essential for our economy to grow and weather business cycles, and increasing minimum capital requirements for U.S. banks is a shared objective. However, I have concerns regarding the proposals that have been submitted for comment.

North Akron Savings Bank (the "Bank") was founded in 1921 as the North Hill Savings & Loan Company and has continued to serve the Akron and surrounding communities for more than 90 years. The Bank has four branch offices and a loan production office located in Summit County, Ohio. With assets of $158 million, it offers full service retail banking services to businesses and households within our market. It also has a strong lending program that targets customer's requests for residential mortgage and small business loans.

North Akron Savings Bank is a relationship-based company and serves its customers on a long-term basis. Its employees take pride in belonging to a locally-owned community bank and actively participate in organizations and events to facilitate healthy and lasting development and growth in our neighborhoods. The Bank strives to continue its role in providing opportunity and leadership in its community and that new capital rules will likely hinder that ability.

The standards as proposed are unnecessarily complex and expensive to implement. The Federal Reserve and other federal regulators have determined that almost all Ohio banks will meet the new capital standards. Therefore, it seems unnecessary that the entire industry will be forced, at extraordinary expense, to validate the new capital levels. The details of individual loans that are required to determine capital levels under the Basel III proposal are difficult to determine. And, because existing loans are not grandfathered, the complex proposal will require North Akron Savings Bank to make a significant investment in new software and personnel at a time when margins are historically low and the Bank is already experiencing additional compliance expenses caused by Dodd-Frank.

Punitive capital charges on all but standardized loans will have unintended adverse consequences for the economy and for the community banking model. As currently released, the regulation will qualify each first mortgage loan into one of six categories based on perceived risk and Loan To Value (LTV) and assign a different risk weighting to each loan. The regulation does not recognize PMI, and penalizes banks for working with customers and modifying loans outside of government sponsored programs by shifting them to a higher risk category. As a practical matter, residential mortgage loans to marginal credit risks will become more expensive as a result of the required additional capital, or in some cases, will not even be made. North Akron Savings Bank will seemingly be penalized for offering its customers financing options for residential property.

Likewise, banks will be penalized for working with troubled borrowers. Currently, when a loan is past due, the additional risk is addressed through ALLL. In the future, these assets will take on a new 150 percent risk weighting and this will require a double charge to capital for delinquent loans. This policy further undermines workouts and encourages fire sales of troubled assets for less than reasonable market value. Again, this proposal is particularly detrimental to community banks that are closer to their customer and when justified can more easily adjust terms or otherwise work out troubled credits.

The New Regulation also deducts mortgage servicing assets that exceed 10 percent of an institutions common tier 1 equity. The proposal excludes mortgage servicing assets in excess of 10 percent of CET 1. Also, deferred tax liabilities, mortgage servicing rights, and investments in the stock of an unconsolidated financial entity may not exceed 15 percent of CET 1. Worse, the amount of mortgage servicing assets below 10 percent of CET 1 is assigned a risk weighting of 100 percent, but is phased up to 250 percent by 2018, adversely impacting capital twice. Servicing local loans is something that community banks do to generate fee income and to maintain relationships with local customers. Penalizing the existing mortgage servicing assets under the proposal is unreasonable and there is no evidence that mortgage servicing rights or deferred tax assets have the inherent risk justifying this punitive treatment. Any mortgage servicing rights existing on community bank balance sheets should be allowed to continue to follow the current risk weight and deduction methodologies.

The proposed risk weight framework under Basel III is extremely complicated and will be an onerous regulatory burden that will penalize community banks and jeopardize the housing recovery. It is likely that many community banks will either exit the residential loan market entirely, or only originate loans that can be sold to a GSE. HELOC loans are collectively placed in the 200 percent risk weight category and a bank that holds both the first and second mortgage will "taint" the underlying first mortgage, assigning it to a higher category unless the entire combined loan can qualify as a tier one risk. Therefore, second liens will either become more expensive for borrowers, or disappear altogether as banks will choose not to allocate additional capital to these balance sheet exposures. For these reasons, community banks should be allowed to stay with the current Basel I risk weight framework for residential loans.

Requiring unrealized gains and losses from a bank's available-for-sale investment portfolio will not increase safety and soundness and may likely introduce increased volatility to bank capital levels. The Basel III proposal requires unrealized gains and losses from the available-for-sale portfolio to flow through to common equity tier 1. Inclusion of accumulated other comprehensive income (AOCI) in capital will result in increased volatility in regulatory capital balances and could rapidly deplete capital levels under certain economic conditions. AOCI for most community banks represents unrealized gains and losses on investment securities held available-for-sale. Because these securities are held at fair value, any gains or losses due to changes in interest rates are captured in the valuation. These gains and losses are a function of changes in interest rates, not credit risk, and in a rising rate environment may result in North Akron Savings Bank reducing its balance sheet to maintain regulatory capital ratios which, in turn, would impact the availability of capital to its customers. It is also possible that the Bank would shorten its maturities placing additional pressure on income, or reclassify its entire portfolio as held-to-maturity in order to avoid the adverse impact of this segment of Basel III.

To completely appreciate the risk these proposed capital standards pose for community banks, they need to be considered in the context of other costs imposed on banking through new regulations. According to the House Financial Services Committee, there are already 7,365 pages of new regulations that banks must understand and manage. Together with the new capital rule, these requirements will make community banking a losing business model for some; any may unnecessarily encourage further consolidation.

Alternatively, regulators should consider carving out banks like North Akron Savings Bank that either present very small risk to the financial system or who have a traditional, straightforward, low risk balance sheet. It would also be important to develop a simplified capital requirement that will not require the extensive and expensive data required under the current proposal. Community banks should be given additional time to phase in any new proposed minimum capital levels because they do not have easy access to capital markets. The only way for many community banks to increase capital is through the accumulation of retained earnings over time. Due to the current low interest rate environment, community bank profitability has diminished further hampering the ability to grow capital. If community banks are not exempted from capital conservation buffers, additional time should be allotted to retain and accumulate earnings accordingly.

In conclusion, a proposal that was designed in Basel, Switzerland, for large multi-national banks has no applicability for the overwhelming number of Ohio banks. North Akron Savings Bank opposes the proposed regulation and respectfully requests that the current Basel III proposal be withdrawn and resubmitted to recognize the reality that most banks are operating with risk profiles that do not justify either the additional capital or the large additional expense of tracking assets to the degree required by these new standards.

Respectfully,

Tracy Jensen

Tracy Jensen
Vice President

cc: Senator Sherrod Brown
Senator Rob Portman
Congressman Bill Johnson
Congresswoman Jean Schmidt