CATSKILL HUDSON BANK

157 Stockade Drive • Kingston, New York 12401
Tel.: 845-943-4220 / Fax: 845-331-1701

October 16, 2012

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

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. As a $360 million locally-owned independent community bank, the following provisions of the Basel III proposals would have and/or could have a significant impact on Catskill Hudson Bancorp, Inc. and its wholly-owned subsidiary, Catskill Hudson Bank:

1) We are concerned that the Basel III requirements that we maintain higher levels of capital and equity will limit our ability to make loans to qualified borrowers, thus further suppressing overall lending (and our small business lending in particular) in the U.S. We have been able to increase our lending significantly over the last five years, and we would see these Basel III provisions as a detriment to our ability to continue that trend.
2) The Collins Amendment in Dodd-Frank allowed bank holding companies with less than $15 billion in assets to continue counting existing Trust Preferred securities as part of Tier One Capital. The proposed standards ignore this, calling for a phase-out of Tier One capital for all bank holding companies over a 10-year period beginning in 2013, which would have a significant impact on our capital.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

3) The standards call for unrealized gains and losses on Available for Sale securities to be included in regulatory capital. We are very concerned that this creates the potential for capital volatility, as well as a significant reduction in regulatory capital in an inevitable future raising rate environment. If the intent is to eliminate small independent community banks, this would be a sure fired result.

4) The proposed Basel III formulas for risk weighting are tied to loan-to-value, so they are likely to significantly increase the weight of residential mortgages loans (both first and second liens), HELOCs, and noncurrent and nonperforming loans. These new risk-ratings formulas would certainly impact our decision to make certain types of real estate loans.

We trust you will consider the impact of the proposed requirements on the small, independent community banking community and the resulting impact on our ability to enhance the small business environment in our country.

Yours truly,

Glenn B. Sutherland
President and CEO