

November 13, 2012

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

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

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<sup>1</sup> 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. We strongly urge you to modify the proposal to take into consideration the size of the bank, its risk profile and the complexity of the entity. One size fits all is totally an unrealistic approach.

Please consider the following impacts to community banks if the proposal goes through as drafted:

A. Basel III is designed to apply to the largest international banks which operate entirely in a different manner with higher risk profiles than community banks. Community banks do not engage in highly leveraged transactions. To apply the same rules to all banks is inappropriate.

B. Applying accumulated other comprehensive income, which in most community banks situations is gains and losses in securities held for sale, will add additional risk in light of the current interest rate environment. When rates increase this will result in a depletion of capital in most community banks and potentially force them to raise additional capital in a capital market with limited opportunities.

C. New risk weights are complicated and will be a tremendous regulatory burden for smaller community banks. We don't have the systems to easily accomplish the proposed tracking of risk weights so the result will be significant additional expenses to comply with this complex area. The end result will be decreased lending for mortgages, home equity loans and any type of secondary lien loan. We see a very negative impact on housing and the housing recovery.

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D. Mortgage servicing rights will be penalized under the proposal with limited benefit considering the limited value of these rights for most community banks.

In summary, this regulation provides undue burden and complexity for smaller community banks that pose limited risk and will simply be allowed to fail or forced into a merger if they don't comply with complex new regulation. We request you stay with Basel 1 or have a two tiered Basel III approach.

Sincerely,

Alan W. Dakey  
Pres. & CEO  
Peoples Neighborhood Bank  
82 Franklin Avenue  
Hallstead, PA 18822