FIRST SAVINGS
Banking-Insurance-Investments

Frederick E. Schea, President and CEO

October 22, 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 comment on the Basel III proposals that were issued for public comment by the several regulatory organizations.

First Savings Bank of Perkasie is a Pennsylvania state chartered mutual savings bank. We value the role we play as a community organized bank with the clear mission of serving our communities, customers and employees. As a mutual, we have few current options to increase our capital position other than the way we have done so since 1922, retained earnings. We value the strength strong capital gives us as a mutual. This has been especially important during the difficult economic period we have experienced in our market area.

You have received many comments already, most of which we are in agreement with. I would like to briefly comment on some of the more significant:

- Proposed Capital Conservation Buffer starting in 2016 and fully phased in by 2019. In reality, we believe a buffer is already imposed by field examination staff as individual issues arise in institutions. To impose a complex quantitative rule when common sense of experienced regulators already is effective seems unnecessary.
- Included the AOCI as an adjustment of common equity capital (or in our case, retained earnings). Over the course of an interest rate cycle, the unrealized gains or losses are a natural movement for investment portfolios. Interest rate risk is an important risk element for which many resources are dedicated to monitor and control. Balance sheet

219 S Ninth Street | PO Box 176 | Perkasie, PA 18944-0176 | P 215.453.2337 | F 215.453.2332 | www.firstsavingsonline.com
fschea@firstsavingsonline.com

management is a dynamic process and not one based purely on static position. To subject the capital position of community banks such as ours to changes in unrealized changes in the investment portfolio will also force our bank to turn off and turn on our lending contrary to changes in economic cycles. For example, today an increase in interest rates would likely also indicate improvement in the economic environment. A negative change in unrealized could reduce our ability to lend when the economy and our customers need us to sustain their activity.

- Impact of changes to risk weights under the proposed regulations. Clearly this is an area of increased complexity which will be costly to our bank. There is a fair amount of information not currently collected which will have to be factored into our loan origination and servicing software and reporting. In addition, some of the proposed risk weights, particularly on home mortgages may impact our ability to provide good quality mortgages loans to finance the homeowners and prospective homeowners in our community. The cost of home equity loans will increase dramatically as proposed weights up to 200% come into play. In our commercial business, how secondary mortgages will be affected is complex and seems contrary when we are trying to mitigate risk. There are other issues of unused credit lines, risk weights for construction lending and development which also seem contrary to our country's ability to meet the housing needs of its citizens and our customers.

We have been a proud member of our community for over 90 years, providing the financing needed to support economic activity while at the same time balancing good credit practices for our customers. You will have many other comments from bankers, trade groups, housing advocates and legislators which may be in far more detail. We believe there is not a one size all check the box prescription for regulation of community banks in our country. We respect the need for strong capital and we believe there is already a positive movement among community banks and their regulators to maintain the strength of their organizations. Further regulation is just not needed for community banks.

Thank you for the opportunity to comment on the proposals and we look forward to the dialog we believe will be generated by the comments you have received.

Sincerely yours,

Frederick E. Schea
President and CEO