

August 29, 2012

Robert E. Feldman, Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: Basel III Capital Proposals

Dear Mr. Feldman:

I am writing on behalf the stakeholders of Elderton State Bank concerning the proposed capital changes recently approved by the FRB, OCC and FDIC. Our stakeholders include our employees, management, board, shareholders, and most importantly, the communities we serve. I thank you for the opportunity to submit my comments.

Elderton State Bank is a community bank with assets of under \$200 million serving customers in 13 Western Pennsylvania Counties. We have approximately 50 employees with a FTE of 41. We have a history of strong capital and earnings, as well as strong support to the communities in which we do business. We have a simple and conservative business model that in no way contributed to the "financial crisis". In fact, we have become a victim of it.

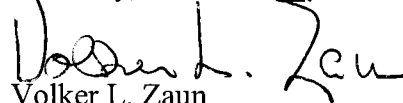
There is a good probability that the proposed changes will curtail our growth and the ability to provide loans, especially to small businesses. Over the past ten years, our loan growth has been due to business lending, as we were unable (and unwilling) to compete with banks and non-banks which made loans at any cost and sold them. As a community bank, we know our customers well and as problems develop, we fund our ALLL accordingly. In my opinion, we will now reserve for potential losses twice – once through the ALLL and again through increased capital requirements. If problem loans have been individually (or as a group) evaluated for the ALLL, we do not see a need to apply a 150% or 200% risk weighting. We fear our capital requirement may become quite volatile, and if we should need to raise capital as a community bank, it would be very difficult and expensive. The alternative would be to curtail growth, shed assets, or merge with another financial institution. These scenarios would harm our local communities.

The other problem I would like to comment on is the reporting burden the new capital calculations will impose on us. Our core system does not have the ability to perform the rather complex sorting and calculations required by the proposals. Determining the risk weighting of loans using LTV ratios, product type, and underwriting criteria would require manually reviewing individual loan files. Even if we hire and train additional personnel, it will still be extremely tedious and time consuming to get our system to a point where data from it might be used to help with the required calculations. At best, it will still require excessive manual input.

In my opinion, community banks such as Elderton State Bank are being unfairly penalized for problems created by others. We know our customers, our local economy, and are an integral part of our community. These new proposed capital regulations (and others) are making it more difficult for community banks to remain independent. In my opinion, small banks have minimal, if any, systemic risk and it would make sense to exclude them from these regulations.

Thank you for considering these comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Volker L. Zaun". The signature is written in a cursive style with a large, stylized "Z" at the end.

Volker L. Zaun
CEO