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FINANCIAL[SM]

October 18, 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 Gentleman:

Thank you for the opportunity to provide comment on the Basel III proposals 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. AmeriServ Financial Inc. (ASRV) is a publicly traded $1 billion community bank holding company headquartered in Johnstown, Pennsylvania. We have several serious concerns related to the proposed Basel III capital framework. From our vantage point, it appears Basel III was designed to apply to the largest, internationally active, banks and not community banks. Community banks such as ASRV did not engage in the highly leveraged activities that severely pressured capital levels of the largest banks and created panic in the financial markets. Also, many of the troubles in the mortgage market related to activities caused by non-bank mortgage brokers who were solely interested in earning a fast commission on a mortgage transaction without concern for the best interests of the customer. At ASRV, we have been in business for over 110 years because we utilize a relationship-based business model that is designed to serve customers in our communities on a long-term basis. We are a vital partner to businesses in our community and are critically important to economic growth in the local markets that we serve.

One specific significant problem we have with Basel III is the proposed phase out for Trust Preferred Securities (TRUPS) as Tier 1 capital for banks between $500 million and $15 billion. This approach is inconsistent with the Collins amendment in the Dodd-Frank Act and will clearly have a negative impact on ASRV as we presently hold approximately $13 million of TRUPS. We issued these TRUPS in 1998 and to date they have served as a reliable source of capital. Phasing out this important source of capital would be particularly burdensome for a small community bank and would be difficult to replace because we have limited access to cost

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effectively raise capital in the public markets. It is also inconsistent with the Treasury's recent SBLF program which was designed to encourage small business lending by providing capital to qualified community banks at favorable rates. ASRV received $21 million of capital through the SBLF program which we have effectively utilized to already increase our small business lending by approximately $30 million or 25.2% since we entered the program. By phasing out the TRUPS as Tier 1 capital, it would effectively negate a meaningful portion of the capital benefit we achieved by participating in the SBLF program and most likely have a negative impact on our future lending.

Another concern we have with Basel III relates to the inclusion of accumulated other comprehensive income (AOCI) in capital for community banks. At ASRV, AOCI largely represents unrealized gains and losses on investment securities classified as available-for-sale. These unrealized gains and losses occur in our AFS investment portfolio primarily as a result of movements in interest rates as opposed to changes resulting from credit risk. Since interest rates on debt securities can fluctuate frequently, the proposed rules will introduce significantly more <u>volatility</u> into the regulatory capital calculations. Also, since interest rates have fallen to record lows, it is more likely longer term that once an economic recovery takes hold that rates will rise and put downward pressure on security values that will negatively impact bank capital under the proposed rules.

At ASRV we manage our investment portfolio to ensure that it provides the deep liquidity that we need to effectively manage our entire balance sheet. We currently invest approximately 85% of our investment portfolio in government agency mortgage backed securities and classify 90% of the portfolio as available for sale and 10% as held to maturity. If the AOCI rules stay as proposed, it will most likely cause us to classify more of our investment securities as held to maturity which will reduce our liquidity management flexibility. Also, we will probably reduce our future investment in longer duration mortgage backed securities to limit our capital volatility risk. This would ultimately have a negative impact on housing markets if community banks like ASRV reduced their investment in these important government agency mortgage backed securities.

We also have concerns related to the proposed risk weight framework under Basel III particularly as it relates to residential mortgages and home equity loans. We believe the proposed system is overly complicated and will continue to increase the regulatory burden on community banks. It could also negatively impact home equity or second lien products due to the higher risk weights. For example, when we currently underwrite a new residential mortgage loan we often offer the customer a home equity loan at that time for convenience and ease of future borrowing. It is puzzling that under this example in the future the junior lien may taint the first lien into a category 2 mortgage which will result in a higher risk weight for the first lien mortgage. Finally, we will most likely incur additional information technology system expenses and other operational costs to track mortgage loan-to-value ratios in order to determine and monitor the proper risk weight categories for residential mortgages going forward.

Additionally, we also have some concerns related to the proposed rules affecting "High Volatility Commercial Real Estate" loans under which acquisition and development loans would fall. The proposed approach introduces a punitive risk weighting of 150% compared to the current risk weighting of 100% for this type of lending. We believe that issues with commercial development and construction lending should be addressed at the risk management level and through the regulatory supervisory process. We think that the proposed risk weighting change results from too broad of an approach and fails to consider our bank's experience and expertise in this type of lending, the adequacy of our policies and procedures, concentration levels, and strength of our allowance for loan losses. This proposed change could reduce the amount of lending that we do in our local marketplace for commercial real estate development and construction loans.

In conclusion, we believe that community banks under $15 billion should be exempted from the proposed Basel III capital framework. We appreciate the opportunity to express our concerns with Basel III and hope that you will consider them as you work through the comment review process.

Sincerely,

Glenn L. Wilson	Jeffrey A. Stopko
President & Chief Executive Officer	Exec. Vice Pres. & Chief Financial Officer

cc: William Lang, Executive Vice President and Lending Officer, Federal Reserve Bank of Philadelphia
Glenn Moyer, Secretary of Banking and Securities, State of Pennsylvania
Congressman Mark Critz, Pennsylvania 12th Congressional District
Senator Robert Casey, State of Pennsylvania
Senator Pat Toomey, State of Pennsylvania
AmeriServ Financial Inc., Board of Directors