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October 17, 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: Proposed Regulatory Capital Rules Implementing Basel III, OCC Docket ID OCC-2012-0008

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies"). WSFS Bank is the oldest, locally-managed bank and trust company headquartered in Delaware with $4.2 billion in assets on its balance sheet and $13.3 billion in fiduciary assets, including approximately $1.0 billion in assets under management. Serving the Delaware Valley since 1832, WSFS is the seventh oldest bank in the United States continuously operating under the same name. We, like the vast majority of community banks in the country, provide basic credit and deposit services to local families and businesses. WSFS Bank has a number of concerns about the overall applicability of the Basel III capital rules to community banks as well as some other concerns about specific details and definitions in the proposals.

Overall Applicability to Community Banks

Basel III was crafted to prevent the failure of large complex international financial institutions. We believe that the overly complex and "one size fits all" proposed capital rules are not appropriate for community banks whose business model focuses on extending credit to local small businesses and consumers in our footprint. We suggest that any final rule should exclude

[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.*

banks of under $15 billion in assets from the new standards to recognize that our business model is fundamentally different that the banks Basel III is designed to address. While the Agencies are attempting to put capital back-stops in place to prevent another financial crisis, we believe that the unintended consequences of the additional burden on the community banks and will further restrict the availability of credit to families and small businesses. While we support the goal of adequate high quality capital, we believe this can be achieved with much less complexity, and with much less burden to community banks.

Definition of Capital – Inclusion of unrealized gains and losses on AFS securities

Allowing unrealized gains and losses to flow through regulatory capital will limit our ability to manage our excess liquidity in a manner that makes it available for lending in our local communities by potentially forcing us to classify investments as held to maturity to limit the impact of the interest rate environment on our capital structure. While moving securities to HTM would no longer require gains and losses on those securities to be recorded in Tier 1 capital, the operational restrictions imposed on the HTM account would greatly reduce our ability to properly adjust our portfolio for liquidity and funds management purposes. This classification will mean those investments cannot be sold and would no longer be available to fund loans to small businesses in our communities.

The proposed rule should be revised so that the definition of capital should continue to exclude AOCI from tier one capital.

Definition of Capital – Phase out of Trust Preferred Securities (TruPS)

The phase out of Trust Preferred Securities as capital instruments is inconsistent with the intent of the Collins amendment. The proposed Basel III capital rule does not grandfather Trust Preferred Securities for institutions between $500 million and $15 billion as proscribed in the Collins amendment. Instead, Basel III requires the phase-out of these instruments for bank holding companies having between $500 million and $15 billion in total consolidated assets as of December 31, 2009, permitting the inclusion of 90% of the carrying value of such instruments in 2013, with annual 10% decreases in the includible amount through 2021, until the instruments are fully phased-out on January 1, 2022.

We believe it is detrimental and unfair to change the status of a particular form of capital long after it has been issued, especially now that the climate for raising bank capital is much more difficult – and the degree of difficulty for raising capital is more pronounced for smaller companies. Phasing out this source of capital especially burdens community banks in their capital plans. Currently, if there is access to capital for a community bank, investors are focused on investing funds for growth opportunities, not to fill capital holes caused by changes in regulation, thereby making it even more difficult for community banks to replace Trust Preferred Securities. Dodd-Frank never intended for this type of instrument to be phased-out for community banks.

The proposed rule should be revised to fully recognize the intent of the Collins amendment by permanently grandfathering outstanding Trust Preferred Securities for institutions between $500 million and $15 billion.

Changes to Risk Weightings

The proposals contemplate significant changes to the measurement and risk weighting of certain assets, including 1-4 residential loans, home equity loans (junior liens) and high volatility commercial real estate (HVCRE). While it is obvious that the increased capital requirements on these loans will force us to reconsider the types of loans we make, based on these proposals a significant amount of additional information will need to be calculated, tracked and reported, including:

- All of the criteria for differentiating between Category 1 and Category 2 residential real estate loans
- Collateral values on residential real estate loans
- Linking residential senior loans that also have a junior loan
- Collateral values for commercial acquisition and development loans
- All of the criteria for classifying commercial acquisition and development loans as "highly volatile."

We are concerned that the additional information, analysis and infrastructure required to support this reporting will be a significant cost burden for community banks. At this point it is even difficult for us to quantify the additional costs due to the complexities of the proposals.

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In summary, we would encourage the Agencies to heed the advice of Thomas Hoenig, Director, Federal Deposit Insurance Corporation who in a speech to The American Banker Regulatory Symposium stated "Given the questionable performance of past Basel capital standards and the complexities introduced in Basel III, the supervisory authorities need to rethink how capital standards are set. Starting over is difficult when so much has been committed to the current proposal. The FDIC is no different from other U.S. and international regulatory agencies where committed staff has devoted enormous effort to drafting and implementing Basel III. However, starting over offers the best opportunity to produce a better outcome."

WSFS Bank supports the Agencies effort to improve the quality and quantity of regulatory capital and is not opposed to higher capital standards provided that we can get there in a reasonable and simplified way.

Sincerely,

Stephen A. Fowle
Executive Vice President & Chief Financial Officer

cc: Christopher Coons, U.S. Senator
Thomas Carper, U.S. Senator
John Carney, Jr., U.S. Representative
Mark A. Turner, President & CEO, WSFS Bank