Donald S. Shamey
Chief Executive Officer

NexTier Bank

P.O. Box 1550
Butler, PA 16003
724.214.5803 TEL
724.214.5831 FAX
dshamey@thebank.com

October 20, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Via email at regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Via email at regs.comments@occ.treas.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429
Via email at comments@FDIC.gov

Re: Basel III Docket No. 1442
Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010
Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals 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").

I am the CEO of NexTier Bank N.A. located in Butler County, PA. Our bank was founded in 1878 and has taken great pride in serving our local communities since our founding 134 years ago. We are approximately $500 million dollars in assets and are primarily a small business bank, serving small to medium size businesses. We also serve individuals of all means throughout our communities and will provide over $50 million in residential mortgage, home equity and other consumer loans this year. We are very dedicated to making our communities a better place for all to work and live and expect our associates to take an active role in this endeavor. As an example, just last week over 60 of our associates volunteered their time to do repairs and maintenance for a local institution that provides for emotionally challenged youth. I and our Board are greatly concerned that if the Basel III capital proposals are applied to community banks that our ability to continue to serve these communities will be greatly diminished.

We, as other community banks, are an important cog in our nation's economic engine by providing funding to businesses that maintain and create jobs and to consumers for the purchases of goods and services. Anything that reduces this ability will surely have an undesirable impact on our economy.

Let me now share with you some of the concerns that I and our Board have with the Basel III proposals:

I. Enhanced Capital Levels / Reduced Capital Instruments

We understand and appreciate that having adequate levels of capital is essential for a safe and sound banking system. But we feel that requiring community banks to have virtually the same capital requirements as regional and money center banks is inappropriate. They have a much different business model and risk profile and should be regulated as such.

Requiring higher capital levels will almost certainly mean the need for more capital. As you know, community banks do not have access to the same capital markets as larger institutions. In addition, Basel III would limit the types of regulatory capital available, reducing even more of the capital raising options for community institutions.

Our holding company does have trust preferred securities and, unlike the Dodd Frank Act, Basel III provides no grandfathering. The phase out will reduce our ability to grow our balance sheet and provide essential loans to our communities.

II. Requirement that gains and losses on available for sale securities must flow through to regulatory capital

If the required capital levels under Basel III are achieved, the ability to maintain them is certainly a concern. Requiring unrealized gains and losses on available for sale securities to flow through to regulatory capital exacerbates this concern. And reclassifying available for sale securities to hold to maturity impedes liquidity, certainly not a desirable trade off.

Today we are in an unprecedented period of low interest rates. Since most banks currently have gains in their investment portfolios this would serve to increase regulatory capital in the short term. When interest rates rise these gains could quickly turn to losses and decrease regulatory capital. While the bank's actual capital had no change, regulatory capital would have changed significantly. Is introducing this level of cyclicality and volatility into the system really a desired outcome?

III. Increased risk weighting for residential mortgages and home equity loans

Risk weighting changes are also a concern and, again, without grandfathering. Most important are the risk weighting changes regarding residential mortgage and home equity lending. The new risk weightings will limit significantly the appetite for extending this type of credit, making it more difficult for homeownership and home improvements, a mainstay of our economic activity. As mentioned above, our bank will make approximately $50 million in residential mortgages and home equity loans this year. This proposal along with the proposals being considered by the Consumer Financial Protection Bureau will most likely reduce or even eliminate our bank's offering of these very important consumer products. We also feel the risk ratings assigned to these products are inconsistent with the commensurate risk and even more so when considering some of the risk ratings for other asset classes.

Retroactively reclassifying and maintaining asset classifications on an ongoing basis and in such a granularity will be a significant challenge in and of itself. The administrative aspects will require increased staff and expense that adds no value and detracts from the ability to deploy assets that do add value.

IV. Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential home loans which have been sold into the secondary market

As a tool to manage interest rate risk, our bank routinely sells longer term fixed rate assets into the secondary market, primarily first lien 1-4 family residential home loans. The requirement to set aside capital on sold loans would significantly lessen and perhaps even eliminate the use of this tool. The end result is that our institution would no longer be able to provide longer term fixed rate residential mortgages to our communities.

There is also significant ambiguity concerning this section of the proposal. One critical point needing clarification is whether previously sold loans will be grandfathered. If not, the capital requirements for set aside on our sold portfolio would effectively require us to close our doors.

V. **New rules regarding "High Volume Commercial Real Estate"**

The recognition that there are differences in risk profiles in these types of loans probably will result in improved underwriting and credit standards, which is most likely a good thing. It is almost a certainty that most community banks will structure these type credits to remain in the 100% category. There is, however an administrative concern of assigning a risk rating to every single loan based on the criteria in this rule and the attendant administrative burden it will cause.

VI. **Proposal to increase risk weights on delinquent loans**

The main problem with this proposal is that it will require that we set aside capital two times, once in the determination of the Allowance for Loan and Lease Losses and again for the elevated risk rating. We believe that problem loan risk should continue to me managed through the Allowance.

In concluding, the above attempts to explain some, but by no means all, of our significant concerns with the proposed Basel III capital requirements. While we can take a snapshot today of how these rules will affect us, there is no way to look into the future with any certainty as to what impact they may have. We do know they will inject significant operating volatility, restrict the availability of credit to our communities and perhaps be the end of the community banking model as we know it. That would be a shame for our country, our economy and our local communities.

While understanding the desire to require more capital to ensure a safe and sound banking system, there has to be a better model to do so, particularly regarding the community banks. I urge you to reconsider the applicability of the Basel III capital proposals to the community banking sector of our industry.

Thank you for your consideration of this request.

Respectfully submitted

Donald S. Shamey
Chief Executive Officer