



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 Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals¹ 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").

To begin with, we would like to tell you about our financial institution and our role within our community. Portage Community Bank was founded on July 1, 1998 by a group of local investors who wanted to take the big business banking that large institutions provided and transform the way of doing business into a community bank whose products and services were being tailored to meet the needs of our customer base in Portage County, Ohio. Now celebrating our fourteenth anniversary year with a combined deposit base of approximately \$232 million and total asset base of approximately \$275 million, Portage Community Bank continues to serve our customers by the words of our original mission statement: *The mission statement of Portage Community Bank is to utilize local ownership, decisions and people. This team will be dedicated to providing friendly, quality service as a full service bank for the business and personal banking needs of our customers. In everything we do, we will always take the extra step for our community. We view ourselves as "Neighbors Serving Neighbors."* With over 60 dedicated employees, an operations building, a second banking office, a mortgage company, and an investment company all brought to fruition in our first ten years of service as a financial institution, you can see the commitment and impact the shareholders, Board of Directors, and employees of Portage Community Bank have made within our community.

We have several significant issues of concern in regard to the joint proposed Basel III capital regulations that we would like to address with this comment letter. First of all, the new standards relate to financial institutions of all sizes and not just the large, complex internationally active financial institutions that were the primary cause of the recent financial crisis and for whom the standards were originally conceived. The proposed Basel III standards extends stricter capital standards on Main Street community banks, which represent the common-

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.*



sense lenders who stuck to their knitting in the run-up to the Wall Street financial crisis and have been working diligently overtime to deal with the fallout. A one-size-fits-all regulatory approach is not in the best interest in meeting the intent behind this proposal. In our opinion, an approach that takes greater consideration of the size and complexity of financial institutions into account would have a less disruptive impact on the community banking industry.

Secondly, the proposed capital regulations will increase community banks' cost to comply with the new regulations. The proposed capital regulations will require community banks of our size to incur additional costs in order to add systems and controls to appropriately calculate the new risk weightings for the new risk based capital levels and maintain these systems and controls going forward. These additions will increase costs and reduce our profitability, while providing limited benefits. In our opinion, we believe these additional costs will exceed the benefits of the proposal based on the size and complexity of our institution as compared to the large, complex financial institutions.

Thirdly, the proposed capital regulations have the potential to reduce Tier 1 Common Equity with significant volatility due to the significant change from the current rules. The addition of unrealized gains and losses of available-for-sale securities to be included in the Tier 1 Common Equity Ratio for all banks brings about the potential for extreme volatility occurring as we currently operate within an extended near-zero interest rate environment. In our opinion, one component of the bank should not completely affect our Tier 1 leverage, especially looking at the percent of assets and the volatility that can occur. It is of our opinion that unrealized gains and losses on high quality available-for-sale securities (such as issuances by the U.S. Government and related Sponsored Entities) should be excluded from this rule as mentioned in recent Notices of Proposed Rulemaking.

Fourthly, the improvements to regulatory risk-sensitivity involving the adjustments to risk-weightings on certain perceived higher risk loan categories including loans past due over 90 days (to 150%), 1-4 family loans (ranging from 35% to 200% depending on whether 1st or 2nd position, underwriting criteria, and loan-to-values), and non 1-4 family acquisition, development and construction loans (generally to 150%) could limit the ability of some smaller financial institutions from successfully competing in mortgage products and services with larger financial institutions when combined with the already increasing compliance costs and regulatory scrutiny in the mortgage arena. In our opinion, community banks should have the option to continue utilizing the Basel I risk-weighting criteria.

Additionally, several officers of our Bank recently listened in on an "Ask the Fed" teleconference session entitled "Recent Proposals to Enhance Regulatory Capital Requirements: What You Need to Know." One issue that became apparent during the presentation was that it did not seem as if the regulatory agencies had completed a detailed impact analysis of the proposals on an individual bank basis, although the Fed had identified portions of the proposals they believed would have the greatest impact on community banks. It also became clear the reason such an analysis had not been done is the regulatory agencies do not have sufficient information available to them in the current call reports to complete such an analysis. Therefore, the regulators are solely dependent on individual community bank comment letters to provide them with specifics on how this proposal will truly impact our industry. We strongly recommend the regulatory agencies conduct their own impact study/analysis to learn more about the expected final results if the proposals are implemented as proposed. In our opinion, it is not prudent for the regulators to proceed to adopt proposals this complex, significant, and far reaching which result in this much change without conducting some sort of impact analysis to eliminate some of the uncertainty on the front-end.

In conclusion, our stance is in support of a capital system that is going to protect traditional, conservative community banking in this nation. The uniform aspects of the proposed Basel III capital regulations involving financial institutions of all sizes imposes excessive regulatory standards on smaller community banks that only hinders the nation's economic recovery. In our opinion, the proposed rules are highly reactionary to the most recent economic events and do not represent the soundest, long-term approach that is in the best interest of the community banking system. Community banks represent common-sense institutions maintaining the highest

capital levels in the banking industry and should not be subject to the same complex standards required of larger and riskier financial institutions.

Again, we appreciate the opportunity to submit comments on these proposals. If you have any questions regarding this comment letter, please do not hesitate to contact our institution by phone at (330) 296-8090 or reach me personally by e-mail at dherman@pcbbank.com.

Sincerely,



Donald D. Herman, Vice President & Chief Financial Officer