Peoples Bank

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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

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 proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Peoples Bank SB is a $679 million state-charted stock bank established in 1910. We currently have twelve banking center locations and provide wide range of retail, business and wealth management services in these markets. As of September 30, 2012 the Bank's shareholders' equity stood at $67.4 million or 9.93% of total assets. The bank's regulatory capital ratios at September 30, 2012 were 14.40% for total capital to risk-weighted assets, 13.14% for tier 1 capital to risk-weighted assets and 9.31% for tier 1 capital to adjusted average assets. Under all regulatory capital requirements, the bank is considered well capitalized.

As CEO of a community based financial services company, I am in favor of reasonable regulatory efforts to ensure that the US banking system remains strong. However, there are several provisions within the Basel III proposals that will have a significant negative impact to future growth and service opportunities for our bank. The most significant area of concern is the inclusion of gains and losses on available-for-sale debt securities in the common equity tier 1 computation. Currently, our bank has a $192 million securities portfolio all of which is classified as available-for-sale. The securities portfolio's unrealized gain is approximately $4.3 million. In an immediate "rates up" 3 percent rate shock test, our bank would experience an $18.6 million loss in market value. The loss represents approximately 2.5 years of the bank's current earnings and the loss from the securities would reduce our current Tier 1 Capital by

29.6%. Implementing this provision of Basel III would limit the bank's community lending activity and impede the bank's ability to profitability grow its banking operations. If this provision would become final regulation our bank may have to sell its available-for-sale securities and classify all future purchases as held-to maturity. This action would limit market value volatility of the proposed rules. However, the bank would lose its ability to effectively manage interest rate and liquidity risk through varying economic cycles.

Another significant concern with the Basel III proposals is the capital conservation buffer. Requiring the bank to hold additional capital with restrictions on growth and dividends would have a negative impact on earnings and capital creation. Shareholders would be become difficult to attract as a result of the potential dividend limitations, particularly in times of economic stress. During the current economic cycle many community banks have struggled to attract capital and have been forced to rely on government based capital programs. In the future the proposed conservation buffer will most likely have the unintended consequence of causing community banks to depend on the federal government for capital rather than the market.

The proposed Basel III provisions regarding the increased risk weighting for the bank's delinquent loans is redundant. The credit risk related to delinquent loans is assessed through the allowance for loan losses. Banks are already highly regulated in this area and examined to ensure that the appropriate level of allowance for loan losses is maintained.

With regard to mortgage lending, these loans are typically low risk assets for most banks and the associated collateral is sufficient to protect real estate lenders from significant loss. In a weak economy and during times of severe financial stress the proposed Basel III provisions increasing the risk weighting on mortgage loans will result in a reduction in lending activity with the unintended consequence that economic activity will decline as mortgage loan availability to customers is reduced.

As proposed, the Basel III requirement would significantly restrict community banks in the way they provide financial services to their customers. At this time, I respectively request that you strongly consider reducing the regulatory burden of the Basel III proposals, either by limiting the impact of the proposals or by exempting community banks from the final Basel III capital regulations.

Thank you for your consideration.

Sincerely,

David A. Bochnowski

David A. Bochnowski
Chairman and CEO
Peoples Bank