RELIANCE BANK
Mutually Rooted With The Community

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Via E-mail: regs.comments@occ.treas.gov

Via E-mail: regs.comments@federalreserve.gov

Via E-mail: comments@FDIC.gov

RE: BASEL III NPR

Dear Ladies and Gentlemen:

Reliance Bank is a $375 million mutual savings bank located in central PA. In addition to our balance sheet of $375 million, we have off balance mortgages that we currently service in the amount of $205 million. Our current loan to deposit ratio is running nearly 100%. This means that every dollar that we are bringing in as deposits we are reinvesting in our local community. As a mutual savings bank, we have no shareholders and our mission and model is one dedicated to building our capital through organic growth, sharing our profitability with our depositors and our employees, and reinvesting that money in our community in the form of contributions and sponsorships.

Our current form of ownership provides us with the opportunity and the flexibility to make those investments and we are not pressured by having to distribute earnings per share to a dividend base. However, our structure greatly limits our ability to attract capital and our capital growth which has doubled in the last 13 years to an excess of $41 million must all be done organically and through yearly profits. Those profits are primarily generated through our management of our margins and our ability to generate fee income from our mortgage portfolio, and sold mortgages, of locally generated 1-4 family residential mortgages. The proposed BASEL rule that would include banks of our size would be one that would be extremely detrimental to our model and our ability to provide funding to our local customer base. Our portfolio consists of approximately 50% 1 – 4 family residential mortgages that we hold on our books along with consumer loans and 50% in business lending.

Our delinquency ratios are extremely low and our charge off and troubled asset numbers are nearly non existence. We feel that the application of BASEL proposal will extremely modify and hinder our current working model and would dramatically reduce the amount of funds that we could utilize to reinvest in loans in our community.

First-time Home buyers and the Move-up Market Effect

The NPRs propose to separate 1-4 family residential mortgage loans into two risk categories: "category 1 residential mortgage exposures" and "category 2 residential mortgage exposures" based on certain loan-to-value ("LTV") and underwriting characteristics. The NPR does not recognize private mortgage insurance ("PMI") for the purposes of calculating the LTV. The proposed definition of category 1 residential mortgage exposures would generally include traditional first-lien, prudently underwritten mortgage loans and first-lien home equity loans.

Risk weights for category 1 residential mortgage exposures increase with rising LTVs that range from: 35 percent weight for LTVs less than or equal to 60 percent; 50 percent weight up to an LTV of 80 percent; 75 percent weight for LTVs up to 90 percent; and 100 percent weight for LTVs over 90 percent. This departs sharply from the 50 percent risk-weighting applicable to all first-lien residential mortgages in effect today.

Category 2 residential mortgage exposures would generally include all junior-liens and so-called "non-traditional" first-lien mortgage loans, which are those that do not meet the definition applicable to category 1. This would include loans with an amortization longer than 30 years, have a balloon feature, or do not meet the full underwriting document support required to qualify for treatment as category 1. Risk weights for category 2 residential mortgage exposures also increase with rising LTVs that range from 100 percent weight for LTVs less than or equal to 80 percent; 150 percent weight for LTVs up to 90 percent; and 200 percent weight for LTVs over 90 percent. This departs sharply from the 50 percent risk-weighting applicable to residential mortgages that would fall into category 2 in effect today.

The use of LTVs is at best arbitrary since LTVs are based on appraisal values, which vary widely with market conditions and can change dramatically over time. Appraisals are a "best guess" of value at any point in time.

The proposed burdensome and unnecessary risk-weightings for residential mortgage loans will either (i) reduce availability of credit for first-time home buyers who do not qualify for VA or FHA residential mortgage loans, or (ii) substantially increase the cost of home ownership for first-time home buyers. In my 40-years as a banker, the vast majority of first-time home owners are unable to put 20 percent down on their first home. The NPRs will substantially curb lending to first-time home owners and will harm the housing recovery.

Residential mortgage loans with balloon features are not only prudent interest-rate risk instruments for community banks, there are situations where this product is a wise and prudent choice for the borrower. Second mortgage or home equity loan risk-weights of 150 – 200 percent will be harmful to our clients who depend on this source of funding to pay for the costs of college education for their children. When combined with restrictions associated with qualifying for federal or school-based student aid, it will have large repercussions on the ability of many families to pay for their children's education.

Finally, the complexity of the scheme of risk weights based on LTV ratios and categories will create an unnecessary burden on community banks. This scheme clearly seeks to address some characteristics associated with contributing factors to the financial crisis, however, it fails to recognize that for each soured loan with characteristics mapped out in the NPR, there were many others that have and continue to perform well, and have contributed to low-cost home ownership in the U.S. Furthermore, the characteristics themselves do not make for a more or less risky loan, and evidence from the housing market melt-down point to a few "bad actors" using riskier types of products as a driving force, and not the products themselves, each with a prudent and practical application in a given situation.

For these reasons, I urge the agencies to greatly simplify the risk-weighting scheme for residential mortgage loans.

NPRs in Combination with Dodd-Frank Definitions of Qualified Mortgage and Qualified Residential Mortgage Effect

The NPRs proposed risk weighting for 1-4 family residential mortgage exposures (see above), when combined with the widely anticipated final definitions of "Qualified Mortgage" ("QM") and "Qualified Residential Mortgage" ("QRM") pursuant to the Dodd-Frank Act will combine in such a way as to harshly limit credit availability and affordability for first-time home buyers.

Although not finalized, the Consumer Financial Protection Bureau's ("CFPB") draft rules relating to Qualified Mortgages and Qualified Residential Mortgages will drive the industry towards traditional 80% LTV residential mortgages because of anticipated safe-harbor provisions expected in the final rule. The NPRs strongly reinforces this regulatory intent by introducing risk-weightings for residential mortgages with higher LTVs as described above. As most mortgage loans originated with higher LTVs are granted to first-time home buyers, the interaction of the CFPB's QM and QRM rules with the NPRs will have the effect of severely reducing the availability of financing for first-time home buyers or substantially increasing the cost of it, making home ownership less affordable. This will not only delay the recovery in the U.S. housing market, it will likely create massive and permanent shifts in U.S. housing, including driving down the rate of home ownership.

A second compounding impact on first-time buyers is the proposed treatment for home equity loans. Many first time home buyers, unable to afford the standard 20 percent cash down payment required to qualify for a QM or ARM will use a home equity loan in order to buy a home with as little as 5% down. The impact of the NPR will be to raise the cost of capital for banks offering this very common type of loan for first-time home buyers by as much as 300 to 400 percent, depending on LTV. The impact of the proposed rule will be to drive up the cost of financing for first-time home buyers, while limiting credit availability.

The NPRs should be revised so as to not be punitive on first-time home buyers.

Concluding Comments

Taken together, and when considered in concert with other regulatory proposals and newly issued rules, the NPRs disproportionately affect community banks, will limit credit to many credit-worthy consumers and businesses and will result in disruptions to the recovery that is struggling to gain traction in the U.S.

The combination of rising compliance costs, rising regulatory capital burdens, and shrinking net interest margins, will drive capital from the banking sector making it more difficult for the industry to attract capital and ultimately will drive consolidation within the industry.

Community banks (including mutuals) do not have the same access to capital markets in good times, and have a more difficult, if not impossible, ability to raise capital when times are bad. The volatility to capital introduced by the NPRs will place community banks at increased risk of encountering the sanctions applicable to banks that fall into the proposed capital conservation buffer.

The NPRs treat large banks and community banks as being identical business models with identical risk profiles. This does not take into consideration the more simplified balance sheets and customary lending practices of community banks. And while it is true that many community banks have failed through the recent cycle, those failures generally relate to loan concentrations and higher-risk residential mortgage loans that the agencies had existing rules and enforcement powers at hand to deal with effectively.

For all these reasons, I urge you to exempt community banks from the NPRs.

Respectfully yours,

Timothy P. Sissler
President & CEO
Reliance Bank

cc: The Honorable Robert P. Casey, Jr.
The Honorable Patrick J. Toomey
The Honorable Patrick Meehan
The Honorable Jim Gerlach
The Honorable Michael G. Fitzpatrick
The Honorable Allyson Y. Schwartz
The Honorable Glenn Moyer, Pennsylvania Secretary of Banking
Mr. Wayne Abernathy, American Bankers Association
Mr. James R. Biery, Pennsylvania Bankers Association