The Northumberland National Bank

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October 22, 2012

The Honorable Thomas J. Curry, Comptroller
Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Docket ID OCC-2012-0008 and OCC-2012-0009 RIN 1557-AD46

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket R-1430 and R-1442 RIN No. 7100-AD 87

The Honorable Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@fdic.gov
RIN 3064-AD95 and RIN 3064-AD96

Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (the "Basel III Proposal") and Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements (the "Standardized Approach Proposal")

Dear Federal Bank Regulatory Agencies:

We are a $460 million community bank with six offices in central Pennsylvania. We are traditionally a lender to the 1-4 family residential market both in terms of owner occupied properties and investor properties. We also originate mortgages which we sell mostly servicing retained. While all the changes affecting regulatory capital concern us, we find the following items to be of major concern:

Treatment of Comprehensive Income in Capital Considerations

The major items affecting our comprehensive income are the treatment of unrealized gains or losses on available for sale securities and the treatment of certain pension costs. These items are both affected by changes in interest rates actually in opposite directions. Because of the volatile nature of these items capital could be positively or negatively affected as a result of no action of the bank. Banks are required to measure their interest rate risk and maintain a level of capital that is satisfactory. Including these components of comprehensive income could adversely affect the

capital of bank when interest rates rise. Much of this impact is based on estimates that can fluctuate from source to source.

Changes to Risk Based Assets

As previously discussed our loan portfolio is largely made up of residential mortgages. Historically we have not always included appraised values on our system. In addition the ability to tie first and second mortgages together to determine a composite loan to value ratio does not exist. We determine the risk of these items at the time we make a loan. We have even recorded loans that are in fact first mortgages in our system as home equity loans.

It does not seem to risk weight any loan type at more than 100%. The risk of these loans should be considered in a bank's allowance for loan and lease losses so the provided extra capital then would seem to be double counting.

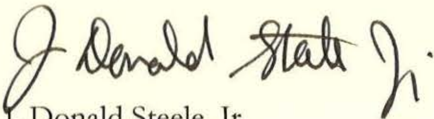
General

Maintaining more capital would tend to have return on equity drop since banks would not be able to leverage to generate addition income. This would reduce bank valuations that would cause additional problems for community banks to maintain their value, find new or maintain existing investors.

Conclusion

These provisions, together with other provisions of the Basel Accords, are not well suited to the U. S. banking system. In the United States, unlike Europe, there are thousands of institutions of all sizes of which community banks pre-dominate in numbers but not in size. We strongly urge your agencies to withdraw these proposals completely.

Very truly yours,



J. Donald Steele, Jr.
Chairman, President & CEO