September 10, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Dear Mr. Feldman:

This comment letter is in response to FDIC RIN 3064-AD95 (Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action) and FDIC RIN 3064-AD96 (Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements).

Genesee Regional Bank (subsidiary of Greater Rochester Bancorp, Inc.) is headquartered in Rochester, Monroe County, New York and is the only locally owned bank based in Monroe County (the home to past and present great companies such as Eastman Kodak, Xerox and Paychex). We primarily compete with large financial institutions such as M&T Bank, First Niagara, Bank of America and Citizens Bank. Genesee Regional Bank's assets are approximately $300 million and our primary focus is serving the needs of small businesses and their owners/principals.

GRB applauds the overriding goal of making the U.S. banking system more fiscally sound, though we have specific concerns. Our comments on the proposed capital rules are limited to those perceived to have the biggest impact on Genesee Regional Bank. Our primary overall concerns are the impact on lending, the ability to manage interest rate risk and the operational burden/cost.

Definition of Tier 1 Capital

The proposal to increase the level of common equity in a bank's capital structure makes tremendous sense and should prove to increase the safety and soundness of the industry.

The inclusion of Other Comprehensive Income in a bank's Tier 1 Capital is troublesome from many perspectives. First, it creates significant volatility in a bank's capital ratios, particularly as the starting point is one of the lowest interest rate environments on record. To offset the impact of significant value swings in the investment portfolio (and thus bank equity), a bank would have a few unappetizing alternatives. The first would be to reduce the ownership of securities with higher price volatility. This could have the potential impact of reducing market demand for certain municipal securities and mortgage securities, thus increasing the cost of such financing to the general public. Further, by limiting the desired price volatility on securities purchased, the income derived from a bank's securities portfolio

would be limited, thus inhibiting the ability to grow capital. The second alternative would be to increase the classification of Held-To-Maturity securities, limiting the liquidity and flexibility necessary to prudently manage a bank's balance sheet. Even the potential solution put forth in the NPR (ignoring interest rate movements and/or ignoring price volatility on government bonds) significantly increases the operational burden of determining proper asset risk weightings. Further, as currently proposed, a bank's capital (via OCI fluctuations) would be impacted by changes in interest rates on only one portion of the balance sheet (securities) and not loans and deposits. The net benefit is difficult to comprehend.

Increasing the limitation of non-mortgage servicing rights and mortgage servicing rights in Tier 1 capital will likely hinder the sale/servicing of the related assets. The unintended consequence is limiting liquidity, flexibility and profitability for a community bank. Further, the proposed changes will reduce the profitability (relative to the required capital allocation) of a specific product line, potentially impacting a bank's desire to offer the product (in GRB's case, residential mortgages and SBA loans), thus reducing the supply of capital to the public and/or increasing the cost of that capital.

Asset Risk Weightings

Question 2 (page 26) of The Standardized Approach for Risk Weighted Assets NPR seeks input on a proposal to allow certain community banks to apply the current risk weighting framework within the new, proposed capital requirements. GRB believes such an approach is appropriate and eliminates unnecessary operational burden. This method should be limited to lower risk banks with a CAMELS rating of a 1 or 2 and a leverage ratio above a minimum threshold.

The above proposal notwithstanding, the proposed changes to the risk weighting of residential mortgage assets are cumbersome, if not completely impractical.

- Collecting and tracking the required data for existing and new loans is cumbersome but not insurmountable.
- It will be difficult/impossible to maintain proper risk classifications as circumstances change throughout the life of an asset. For example, a first lien mortgage could be originated today but its proper risk weighting could be impacted by a junior lien mortgage three years hence. Further, community banks are unlikely to have the information systems in place to manage not only these fluid situations but also to cross-reference two separate assets to determine the risk weighting for both.
- Current industry practice will likely require all HELOCs to be classified as a Category 2 asset, thus increasing the effective risk weighting of all first mortgages with a junior league mortgage attached. A specific example aids in understanding the impracticality of the proposed rules. If a bank had a 79% LTV first lien mortgage, the risk weighting is 50%. If the same bank had a 65% LTV first lien mortgage and a HELOC that increases the CLTV to 79%, the risk weighting is 100%, though the risk of loss remains the same in both examples.
- We encourage the federal banking agencies to publish their data regarding bank failures and residential mortgage credit losses stratified by LTV.

While it's tempting to view the operational burden of a specific regulatory change in a vacuum, it truly understates the full impact on community banks. Just in recent years, the increase in time required to properly complete the Allowance for Loan Loss, properly account for Troubled Debt Restructures,

complete the ever expanding call report, expanded GAAP financial statement requirements, just to name a few, has grown exponentially.

General Comments

Outside of the specific issues outlined above, there are additional overriding issues presented with the proposed capital rules:

- For a community bank, these proposed rules reduce the ability to project future capital levels (impacted by Other Comprehensive Income, Deferred Tax Assets, servicing assets, delinquency levels, etc), increasing the difficulty of long term strategic planning.
- Likely, the most troubling aspect of these proposed rule changes is the impact on a bank's ability to attract investors. While the goal for the changes is to improve the strength of the U.S. banking system, the inability to generate an acceptable return for shareholders will limit a bank's ability to attract incremental equity capital.
- These proposed rule changes appear to provide another competitive advantage for credit unions. In addition to the indefensible income tax exemption, credit unions are not subject to the stringent risk based capital rules that are imparted on the banking industry. In competition for deposits, commercial loans and residential mortgages, the playing field is far from level. These proposed rule changes widen that gap.
- In the country's current economic malaise, banks have been criticized for an unwillingness to lend. While the accuracy of that perception is questionable, the proposed capital rule changes will not increase a bank's appetite to lend.
- The country's remaining banks have borne the cost of lax risk management through higher FDIC premiums and, indirectly, through higher federal government debt loads. These proposed rules only add to the financial burden with scant evidence that they will prevent the next industry calamity.
- The capital framework proposals create increased incentive for consolidation among banks, a goal that seems to benefit no one.

We appreciate the opportunity to provide feedback to the proposed rule changes. If you should need further clarification on any of the above points, please feel free to call me at 585-218-9877.

Sincerely,

Gary S. Schwingel
Chief Financial Officer