Tioga State Bank

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, N.W.
Washington, D.C. 20551
Docket No. R-1430; RIN No. 7100-AD87
Docket No. R-1442; RIN No. 7100-AD87

Office of the Comptroller of the Currency
250 E Street, S.W. Mail Stop 2-3
Washington, D.C. 20219
Docket ID OCC-2012-0008
Docket ID Occ-2012-0009

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
FDIC RIN 3064-AD95
FDIC RIN 3064-AD96

Dear Sir/Madam:

Tioga State Bank is a $390 million dollar community bank operating eleven offices in the Southern Tier of New York State. Our bank has been operating for nearly 150 years with our original charter dating to 1864. We are writing to express our opinion and opposition to the approach taken by the Basel III capital proposal.

The banking system in the United States is unique in the world. Trying to implement a one size fits all approach for all banks in the world is more than likely unattainable. It does not seem reasonable to hold Tioga State Bank to the same requirements as JP Morgan Chase when we have completely different business risks and, therefore, very different business models to maintain our safety and soundness. If, however, the position is defended that all must be the same, why aren't these new regulations being imposed on credit unions as well?

We feel the Basel III approach is reactionary to the recent financial crisis and will significantly curtail many types of lending. Many of the risk-weights proposed, such as Category II mortgages and certain types of commercial real estate, will significantly reduce or eliminate many of the well-managed lending we are now engaged in. Our bank has engaged in this type of lending and we did not experience any significant losses during the crisis. Strong underwriting and close monitoring of customers is why most community banks faired well during the recent crisis. Many home equity loans are important sources of credit for our small businesses. If this lending is curtailed, it would greatly reduce available credit for many of our small business customers. Although our net loan losses have been negligent for years, we still maintain very conservative ALLL balances, as do most community banks. This protection seems to be ignored in the Basel III requirements.

In addition, we are concerned about having unrealized gains and losses from our available for sale (AFS) investment portfolio included in our capital ratios. This is especially troubling at a time when the government has artificially held interest rates at historic lows for an extended period of time. Most community banks currently have gains in their investment portfolios which will quickly turn to losses in a rising rate scenario, which could trigger a need for additional capital under this proposal. This artificial need for capital will result in a curtailment of lending at a time when the economy will need it the most. Our bank is managed at the Balance Sheet level. As such, one reason investments are purchased is to mitigate risk that may be found elsewhere on the Balance Sheet. By requiring the unrealized G/L of only one segment of the Balance Sheet to be included in Capital ratios, you are misrepresenting the risk profile of the bank.

Tioga State Bank's investment portfolio is comprised roughly 60% mortgage backed bonds and 30% municipal bonds. Both types of bonds have longer durations and thus more price volatility if interest rates rise. We will be reluctant to purchase these types of investments knowing their price volatility will be included in our capital ratios. This could cause two problems. First, many banks will reduce their holdings of both types of bonds. This lack of demand will increase the price to municipalities and mortgage borrowers. The second affect will be a decrease in earnings for our bank as we reduce our positions in both areas.

If community banks need to raise additional capital, there are few sources today. Community banks, unlike the largest 19 banks in the country, will not have the Federal Government as a backstop or source of funds. The Trust Preferred market has all but disappeared, eliminating another source of capital. We rely mainly on retained earnings as a source of capital. Knowing this, we are already extremely diligent in managing our investments, loans and deposits and mitigating risks. The Basel III requirements, particularly the new risk-weightings, will be a very expensive and time-consuming undertaking for our bank. We are not worried that our loan portfolio will put us out of business; we are very worried that the constant increase in regulatory and compliance costs will not allow us to compete with the largest of our competitors. This imbalance will ultimately result in a loss of viable options for the consumers and businesses in our communities.

Finally, we know that we provide a valuable service to our rural communities and this service is being put at jeopardy so we can be put on par with the international mega-banks of the world. We at Tioga are hoping that reasonableness will prevail and the community banking system in this country will be permitted to continue to serve our communities with pride and integrity. Please help us survive by exempting community banks from the Basel III requirements.

Respectfully submitted,

Anne McKenna

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