Jeffrey Morrow
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SINCE 1855

November 3 ,2003

Office of the Comptroller of the Currency
250 E Street, S.W.
Public Information Room
Mailstop 1-5
Washington, DC 20219

Attention Docket No. 03-14
regs.comments@occ.treas.gov

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Attention: Docket No. R-1154
regs.comments@federalreserve.gov

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

comments@FDIC.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552

Attention: No. 2003-27
regs.comments@ots.treas.gov

Re: Risk-Based Capital Guidelines; Implementation of New Basel Capital Accord
68 FR 45900 (August 4,2003)

Ladies and Gentlemen:

Dollar Bank, F.S.B. ("Dollar") is a mutual bank of more than *$5* billion in assets serving the Pittsburgh and Cleveland markets. It is well capitalized and profitable and competes against numerous very large banking organizations. Objective measures, such as the interest rate risk model of the Office of Thrift Supervision, indicate that Dollar operates with levels of credit and rate risk significantly lower than industry averages.

Dollar appreciates the opportunity to comment on the U.S. Agencies' Advance Notice of Proposed Rulemaking ("ANPR") which follows the proposals dealing with so-called Advanced Internal Rating-Based ("AIRB") banks in the new Basel Capital Accord.

We at Dollar understand and support the goals of the Basel II process: the creation of a more risk-sensitive framework of capital regulation and supervision in the U.S. and globally and the application of modem financial and statistical tools to risk management as well as asset pricing and allocation. We understand, too, that the existing Basel I framework, a significant advance when first promulgated, is an anachronism which, at best, distorts the marketplace.

Precisely because we concur in these objectives, we believe it is important that we respond as forcefully and as pointedly as possible to the Agencies' specific request for comment on the desirability of a bifurcated framework of capital regulation and whether such an approach has adverse competitive and other effects. If there is any lesson that we at Dollar have learned over the last two decades, it is that capital policy and regulation lie at the very heart of bank regulation.

With this perspective, we can state unequivocally that capital regulation does dramatically effect how we run our business, and that a marketplace in which competitors have significantly different regulatory capital requirements for the same **risk** is an inherently unfair marketplace. Indeed, this disparity will artificially accelerate the trend of consolidation among our banks – increasing both concentration and systemic risk.

Accordingly, we recommend that the Agencies' provide as expeditiously as possible an ANPR which would seek comment with respect to concrete alternatives addressing this issue. First, we believe that Agency staff could, based upon the wisdom gained in the Basel II process, readily develop modifications to existing rules which incorporate the best insight of that process ("best of Basel"). Such rules should parallel the economics of the AIRB approach, be of general applicability and should, given Agency readiness, be implemented ***in 2004.*** The Basel Committee has itself set forth alternative, less complex, proposals for banks that do not choose the "advanced" approach. Although these can be improved upon in the rulemaking we envision, we believe that it was a serious mistake for the Agencies not to have included any such approach.

Second, even if the Agencies conclude that a bifurcated approach is ultimately required, care should be taken to minimize the attendant adverse effects. Certainly, it should not be premised on the notion that so-called "advanced" banks are necessarily less risky and get a capital break. (It has not been helpful that the perception has arisen that Basel II has been tailored to give our largest institutions a capital break; indeed, this perception has perhaps discouraged broader comment.) In this regard, the Agencies should explore development of AIRB approaches that are practical for application for institutions of all sizes, not just very large ones. Agencies must insure that "opt-in" is a realistic choice.

In suggesting the necessity of an immediate Agency focus on advancing a framework of "best practice" capital regulation for all U.S. banking institutions, we are mindful of the extraordinary effort of Agency staffs to bring Basel II to this point and of the difficult path which lies ahead. Nevertheless, we are convinced that the time and effort required are both manageable and essential.

In this regard, Dollar stands ready to work with the Agencies to create a regulatory capital regime of general applicability that: constitutes "best regulatory practices", is suitable for the particular regulated institution, and does not unfairly distort the marketplace. We look forward to working with you.

Sincerely,

Jeffrey Morrow
Executive Vice President

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