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October 28, 2003

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
20th Street & Constitution Ave, NW
Washington, DC 20551

Dear Ms. Johnson:

I am writing to you about the Basel I & II Accord. I do have concerns about both for which I will explain each separately.

Basel I Accord Adopted in 1988 needs to be reviewed to more clearly define the true risk weighting of a bank. Common sense will tell you that a bank has more risk holding a 1-4 family mortgage with an 80% LTV vs. a mortgage with at 50% LTV. Yet today's matrix puts both in the same 50% rated bucket. How can this logic truly show the true risk exposure of a bank? Commercial Mortgages are weighted at 100% no matter what the LTV might be. Should a bank have to sell good higher yielding Commercial Mortgages sacrificing income even with a 50% LTV because of the risk weighting formula? This issue needs attention.

Basel II, as proposed, does not allow smaller community the ability to "opt-in" as is the case for larger banks. Size of an institution should not be the determining factor in the ability of leveraging capital as proposed by Basel II. Please re-consider the "opt-in" portion of Basel II for smaller institutions.

Sincerely,

MCHENRY SAVINGS BANK

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