**Lake Shore Savings**
*Putting People First.*

30 East Main St
Fredonia, NY
716-673-9555

115 East 4th Street
Jamestown, NY
716-664-1103

Wegmans Plaza
W. Ellicott, NY
716-483-3400

106 East Main St.
Westfield, NY
716-326-4414

128 East 4th St
Dunkirk, NY
716-366-4070

570 Dick Road
Depew, NY 14043
716-898-2022

3438 Delaware Ave
Kenmore, NY
716-898-2010

3111 Union Rd
Orchard Park, NY
716-674-2066

5751 Transit Rd.
East Amherst, NY
716-688-6114

59 Main St.
Hamburg, NY
716-646-9480

October 22, 2012

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

We appreciate the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Our community bank was incorporated in 1891. Since that time we have grown to approximately $499 million in assets and have successfully served our customers in Chautauqua and Erie Counties of Western New York State with a network of 10 branch locations. We are primarily in the business of residential lending and providing deposit services. However, we have been successfully meeting the needs of small businesses in our market areas, and have grown our commercial loan portfolio from $13.9 million as of December 31, 2000 to $59.9 million as of June 30, 2012. We are dedicated to serving our customers, as noted by our tagline of "Putting People First", through quality customer service by our 124 employees. We are also dedicated to community service through charitable donations as well donations of time by our employees to non-profit organizations in our market areas.

Member FDIC
LENDER

We are very concerned about the effects of Basel III on our ability to continue to meet the needs of our customers in an efficient and effective manner, while retaining our capital levels. Lake Shore Savings Bank has had a consistent history of strong capital levels as noted below:

| | As of | At or for the year ended December 31, | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| **Capital ratios:** | | | | | | |
| Total risk-based capital to risk weighted assets | 23.70% | 21.81% | 20.44% | 20.33% | 21.78% | 23.72% |
| Tier 1 risk-based capital to risk weighted assets | 23.15% | 21.27% | 20.05% | 19.95% | 21.35% | 22.90% |
| Tangible capital to tangible assets | 11.51% | 11.18% | 10.28% | 10.85% | 11.20% | 12.28% |
| Tier 1 leverage (core) capital to adjustable tangible assets | 11.51% | 11.18% | 10.28% | 10.85% | 11.20% | 12.28% |
| Equity to total assets | 13.35% | 13.09% | 11.52% | 13.03% | 13.30% | 14.94% |

The following items are the areas of the Basel III proposal in which we have concerns:

1. **Requirement that gains and losses on available for sale securities be included in the common equity Tier 1 calculation.**

   As of June 30, 2012, Lake Shore Savings Bank had a $170.7 million investment portfolio, consisting primarily of mortgage backed securities (primarily FNMA, FHLMC and collateralized mortgage obligations by government sponsored entities), municipal bonds and treasury bonds. All of the securities in our investment portfolio are available for sale securities. The portfolio had an unrealized gain of $5.1 million on this date primarily due to historically low interest rates. If we do an immediate 400 bp shock to interest rates, it would create a $36.8 million pre-tax change in the market value adjustment of our investment portfolio and would drastically decrease our capital under the proposed Basel III guidance. A 400 bp shock to interest rates could potentially reduce our Tier One Capital by nearly 50%, while nothing has changed in the bank's equity position. This proposal will introduce a significant amount of cyclicality and volatility into the system. Furthermore, it will hamper a bank's ability to manage its investment portfolio as a core tool to offset the inherent interest rate risk in its loan and investment portfolios. This is a critical tool for our bank as we typically hold residential mortgages in our loan portfolio, rather than sell the loans on the secondary market.

2. **Increased risk weightings for residential mortgage loans and home equity loans.**

   As we are a traditional thrift institution, our bank provides a significant number of residential mortgage and home equity loans to people living in our market areas. Residential mortgage and home equity loans made up 76.5% of our total loan portfolio as of June 30, 2012. Our loan loss percentage is well below our peers, primarily due to our focus on residential lending and our strong underwriting practices, as well as our focus of originating loans in those market areas in which we are located. The new capital proposals relative to the risk weighting of residential mortgages and home equity loans are higher in many cases than other loan types that would be considered much riskier in our experience. As such, we do not believe that the higher risk weightings are justifiable for a community bank that limits loan originations to its own market area, in which it has branch locations. Community banks are more familiar with its customers, local economic factors, and real estate markets than quota driven larger banks who serve larger regional or national market areas.

3. **Increased risk weightings on delinquent loans.**

   Although our delinquency ratios are well below our peers, the proposal to increase the risk weighting on delinquent loans seems unfair as all banks already account for delinquent loans in its allowance loss reserves, which are under intense scrutiny by regulatory examiners. This proposal would have the effect of decreasing a bank's capital, while at the same time requiring the bank to hold amounts in its loan loss reserve.

4. **Complexity of Basel III**

   The overall complexity of the proposed regulation will result in increased costs by community banks to hire the staff or computer systems required to maintain compliance with the proposed regulation, which has the effect of reducing a bank's efficiency ratio, income and capital growth.

In conclusion, we would like to encourage you to strongly consider revising various aspects of the Basel III proposed regulation that would be burdensome to community banks which were not responsible for making the risky loans that created the recent economic crisis. The goal of our community bank is be a strong supporter to small businesses and customers in our market area and to allow them to be successful in achieving their dreams. Increased regulation and complexity may severely limit our strong historical capital levels, as wells as our long history of supporting our communities.

Sincerely,

Daniel P. Reininga
President and CEO

Rachel A. Foley
Chief Financial Officer

/raf

cc: Congressman Brian Higgins
Senator Kristen E. Gillibrand
Senator Charles E. Schumer