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CORPORATION OF PENNSYLVANIA

Financial Solutions For Life

JEFFREY M. SCHWEITZER, CPA
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

October 12, 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:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

Univest Bank and Trust Co. ("Univest" or the "Bank") is a $2.1 billion asset state chartered Federal Reserve member bank that has been in business serving our local communities of Montgomery, Bucks, Lehigh and Chester counties in Pennsylvania for over 135 years. Univest, like the majority of community banks around the country, faithfully serves our local communities through not only corporate contributions to local non-profit organizations, but also through our employees volunteering over 10,000 hours annually to these non-profits.

Univest is a well-capitalized bank with Total Risk Based Capital as of June 30, 2012 of 15.64%. Univest never took TARP and has been profitable every quarter since the economic downturn began in 2008. While the Company is supportive of a safe and sound banking system and strong capital standards for the industry, certain provisions of the Basel III proposals if inacted as proposed could have an impact on Univest's and all community banks' ability to support the economic recovery and our local communities going forward.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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Issue #1 – Requiring Unrealized Gains and Losses Flowing Through Capital

Requiring unrealized gains and losses to flow through capital will have an impact on the types of securities our bank would be willing to purchase going forward. Given the potential volatility of interest rates, having unrealized gains and losses, specifically losses, flowing through capital will force the Bank to purchase only short-term securities to negate any potential loss of capital from interest rate swings. Univest currently has over $100 million of municipal securities in our portfolio. These are longer-term securities primarily issued by school districts, providing these school districts with needed capital. Given the longer term nature of these securities, our strategy of purchasing municipal securities will change if the new capital rules are inacted as proposed, costing Univest revenue as these securities typically have better yields than other securities (primarily government agency securities). As banks are some of the more active purchasers of this paper, if the banking industry were to pull out of this market, pricing will inevitably increase for these school districts and municipalities, which will not help their recovery during these stressed times.

Additionally, to include the unrealized loss component in capital is contrary to the investment strategy, for which most banks utilize these securities. Security portfolios for community banks are typically to provide liquidity for loan growth as cash flows from the security portfolio are used to fund loans in the local communities. Typically, although the securities are in the available for sale category, these securities are held to maturity and reinvested. The unrealized loss is due to the interest rate environment and not due to any potential credit impairment in the security. If the bank were to hold the security to its maturity, the bank would receive its principal and interest in full.

We would propose that the banking agencies consider one of two alternatives either (1) do not include the unrealized gain or loss in the calculation of capital as it will change the strategy of banks and result in banks purchasing primarily short term paper and thus further hurt the availability of affordable capital to the municipal market and cause additional lost revenue for the bank or (2) only include the credit component of the unrealized loss in the capital calculation carving out the unrealized loss related to interest rates as this is typically irrelevant as banks hold the securities to maturity.

Issue #2 – Deduction of Mortgage Servicing Assets that Exceed 10% of an Institution's Common Equity Tier 1

Univest is an active mortgage lender in our local communities providing the funding needed to help spur a housing recovery we all know is so important to the overall economic recovery. In 2011, Univest funded approximately $250 million of mortgage loans with the strategy of increasing this level in 2012 and beyond. Univest typically originates the loans and sells the loans to FNMA or FHLMC and keeps the servicing or customer relationship as these are customers in our local communities. Retaining this customer relationship provides cross-selling opportunities to the Bank and also benefits the customer as they can deal with their local bank should issues in servicing arise. This results in better service for the customer as the customer is not simply a transaction that needs to be dealt with, but instead is a relationship that needs to be grown.

The increase in the required capital for mortgage servicing rights as proposed in Basel III, will cause banks to re-think their business model when it comes to mortgage banking and whether or not the capital cost of servicing the mortgage outweighs the financial benefit of servicing the mortgage, costing the bank a valuable revenue stream. This could result in many banks, which currently hold onto the servicing for loans it sells, in selling the loan servicing released in which case the customer will be treated as a number (transaction) as opposed to a valued relationship in the local community. Community banks will typically work with a customer should issues arise in their lives, while large servicing organizations will treat the customer more harshly in a more black and white fashion which will impact the customer going forward. As the recent financial crisis has shown, customers fall on hard times and during these times need their local bank to work with them. This relationship way of doing business is the backbone of community banks and will disappear if servicing becomes solely housed in large servicing organizations. Not only will the banks suffer from a loss of revenue, the customer will suffer from a significant loss of service. With the recent renewed focus on the consumer as evidenced by the formation of the Consumer Financial Protection Bureau, this approach of driving banks to sell off the servicing relationship seems contrary to protecting the consumer.

We would recommend keeping the existing capital rules in place for mortgage servicing assets, as there is no evidence that this asset, if the mortgage is properly underwritten, is risky enough to warrant the capital in the proposal. As the asset is required to be valued under existing accounting rules and written down to the lower of cost or market value as a result of market conditions, should impairment in the value of the asset be identified, the volatility of the asset is already currently recorded in capital through a writedown to earnings, further negating the need for a higher capital charge than what is in the current rules.

Issue #3 – Proposal to Increase Risk Weights on Delinquent Loans

Requiring banks to provide additional capital for delinquent loans would result in banks providing capital twice for these loans as these loans are already accounted for through the allowance for loan losses. This can end up having a detrimental effect on customers as banks more aggressively work-out these delinquent credits, due to the additional capital charge, instead of working with the customer to get them back on schedule. We believe that the risk related to these loans is already adequately addressed in the allowance for loan losses and therefore does not necessitate an additional capital charge.

Issue #4 – Change in Risk Weighting for Home Equity Loans

Basel III identifies most home equity loans as Category 2 mortgages and considers them to be a higher-risk form of lending. A properly underwritten home equity loan has proven to exhibit minimal risk to community banks and has resulted in a similar level of net charge-offs as Category 1 mortgages. At Univest, from the period 2008 through year to date 2012, the highest level of net-charge offs for home equity loans was 0.12% of home equity loans. This minimal level of loss does not warrant additional capital requirements. Increasing the capital required, will impact banks desire to originate home equity loans which are often used for home improvements and other large purchases, which will further negatively impact consumer spending and the economic recovery. We would recommend keeping the existing capital requirements in place.

In summary, the implementation of Basel III as proposed would have a significant negative impact on our bank and community banks across the country along with unintended consequences on customers and municipalities. The majority of community banks are very well capitalized and prepared to help fund the recovery from the Great Recession. Implementing onerous new capital requirements on community banks would result in a change in business models, increased cost and lost revenue, which will have a significant negative impact on community banks' ability to help fund the economic recovery.

Respectfully submitted

Jeffrey M. Schweitzer
Chief Financial Officer and
Chief Operating Officer
Univest Bank and Trust Co.

cc: Senator Patrick Toomey
Senator Robert Casey
Representative Michael Fitzpatrick
Representative Charles Dent
Representative Allyson Schwartz
Representative Patrick Meehan
Representative Jim Gerlach