September 25, 2012

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, DC 20219
Re: Basel III Proposals; Docket ID: OCC-2012-0008
Email address: regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551
Re: Basel III Proposals; Docket No. 2012-0008
Email address: regs.comments@federalreserve.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St. N. W.
Washington, DC 20429
Re: Basel III Proposals; FDIC RIN 2012-0008
Email Address: comments@FDIC.gov

**Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action and Regulatory Capital Rules; Standardized Approach for Risk-weighted Assets.**

Ladies and Gentlemen:

We at Magyar Bank thank you for the opportunity to respond to the Basel III NPR and the Standardized Approach NPR, each dated June 7, 2012, which together outline the capital planning principles for banking institutions.

Magyar Bank is a community bank that is focuses on providing retail and commercial banking services to the New Jersey marketplace. We have maintained an "Outstanding" Community Reinvestment Act rating in our last two CRA Examination demonstrating our commitment to this marketplace.

As a prudent policy matter, we fail to comprehend the rationale for applying the Basel standards to community banks. The Basel capital rules were intended for large, internationally active banks and are not required by any U.S. law. It is neither fair nor prudent to paint the entire banking industry with a broad brush. Having the same capital requirements for large, complex banks as small community banks unjustly measures extremely different organization structures and risks. Community banks do not pose the same risks to the overall banking system as do the large national banks, so why are all banks being subjected to the same capital requirements?

Federal Reserve Bank Chairman Ben Bernanke acknowledged the importance of this niche in his speech to Independent Community Bankers of America on March 14, 2012.

"Community banks remain a critical component of our financial system and our economy. They help keep their local economies vibrant and growing by taking on and managing the risks of local lending, which larger banks may be unwilling or unable to do. They often respond with greater agility to lending requests than their national competitors because of their detailed knowledge of the needs of their customers and their close ties to the communities they serve."

"I would like to reemphasize the importance that my colleagues on the Board and I place on the Federal Reserve's relationship with community banks. The Fed is committed to fair, consistent, and informed examinations that take into account the size, complexity, and individual circumstances of each bank we oversee."

Specifically for Magyar Bank, the proposed revisions to capital requirements will cause our Bank to abandon programs designed to provide credit to low-to-moderate income home buyers and first time home buyers. The proposed change to the risk-weighting of residential mortgage exposures is based solely on the original loan-to-value.

Our bank currently has two programs that have been tremendously successful in providing credit to individuals seeking the American Dream but do not have the 20% down payment required to meet the 50% risk-weighting under the proposed changes.

The first is an Affordable Housing Mortgage, which provides residential mortgage loans to homeowners in our marketplace to qualify for a competitively priced mortgage with as little as 5% down, provided their income is considered low or moderate by their respective county's income levels. The bank currently has 59 of such loans totaling $7 million, all of which are performing loans.

The second is a First Home Club Program, in which the Bank has partnered with the Federal Home Loan Bank to provide credit counseling and savings assistance to first-time home buyers with as little as 10% down. The borrowers must complete courses run by Magyar Bank staff designed to help with understanding credit, commit to saving funds toward their purchase for one year, and qualify for a grant from the FHLB towards their down payment.

The bank currently has 28 of such loans totaling $4 million, all but one of which are performing loans. Both of these loan programs are offered at a slightly lower interest rate than our conventional residential mortgage loan products.

Our bank's "Outstanding" rating under the Community Reinvestment Act (CRA) is greatly attributable to these programs. It seems a bit contradictory that we'll now be required to hold one and a half or two times as much capital for these same loans, when they are deemed so beneficial from a CRA perspective. By making these loans to the low and moderate borrowers, we provide a great service to these borrowers and our community as a whole. The Bank will no longer be able to offer these programs as a direct result of the proposed capital requirements due to the fact interest rates for these products would be prohibitive in light of the additional capital requirement and risk weighting of these loans.

We further strenuously disagree with the proposed transition of the AOCI adjustment amount for investment securities. Removing the deduction of the AOCI will simply result in bank's classifying their investment securities as Held-To-Maturity, which will provide no change in capital determination, but rather lock banks into holding their investments to maturity. This reduces the opportunity for profit from sales of Available-For-Sale securities and negatively effects liquidity, as these are an integral part of liquidity contingency planning. In addition, today's interest rates are at historic lows which drives the valuations of securities higher. Most banks have unrealized gains in their portfolios as a result. The true impact of this proposal won't be felt until interest rates increase. An interest rate increase could have a dramatic effect on capital as unrealized losses are subtracted from capital. A bout of inflation could seriously impact a bank's capital, at the same time margins will most likely be compressing for most community banks. The effect will be to "pile on" the losses for banks with no real link to the actual capital of the bank that is not intending to sell the securities. Although these unrealized gains and losses may reflect market value, banks may never realize the dollar value of such gains and losses.

We recommend that unrealized gains and losses on U.S. Government, agency and government-sponsored entities securities be excluded from the final Basel III regulatory capital rule.

The increased capital requirements and new capital calculations will both require higher capital levels for thousands of community banks that maintained their levels of capital in accordance with the existing capital requirements. These banks did not contribute to the banking crisis and in fact were able to continue lending to their local communities as the needs arose. Community banks lack the access to capital markets that is readily available to the large banks. Increasing capital standards coupled with changes in the risk-weighting of assets will put community banks at a competitive disadvantage to the larger banks, which were the real impetus behind the banking crisis.

Basel III also implements a capital conservation buffer of 2.5% to all banks. This "one size fits all" approach will have unintended consequences. It will make it more difficult, in a lingering recession, for a community bank to raise capital. Trained and talented staff members will look for employment at large banking institution as the capital requirements will strain the capital, and thereby the viability, of community banks. We respectfully request that community banks be exempted from the capital conservation buffer.

FRB Chairman Bernanke orated that the Fed will take into account the size and complexity of the banks when regulating them. Shouldn't the capital standards under BASEL III do the same thing? Is it fair to subject a small community bank, whose only activity is lending to its community, with the same capital requirements of a bank that engages in investment banking services, derivatives, off-balance sheet activities and other high-risk business lines?

We need to stress that Magyar Bank and other community banks operate under a vastly different business model than the large, international banks that Basel III was meant to impact. We ask that the Agencies carefully consider the negative impacts Basel III on Magyar Bank and community banking as a whole. The Basel III NPR and the Standardized Approach NPR will burden community banks by increasing capital ratios, narrowing regulatory capital and increasing risk weights. All of these impacts will restrict profitability, reduce lending capacity, and classify certain loans which meet the needs of the community as high risk. All of which is counter intuitive to the community banking industries objective of helping our sluggish economy rebound.

Thank you for the opportunity to comment.

Sincerely,

John S. Fitzgerald
President and CEO