ASB AMERICAN SAVINGS BANK, fsb

October 8, 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.

Increasing minimum capital requirements for the banks in our country is a goal that I believe we all share. The stability of our banking system is essential for our economy to grow or be able to weather future crises. However, I do have serious concerns regarding the proposals related to Basel III that have been approved and placed out for comment.

Our bank has been in existence for over one-hundred years having been formed in 1892 in Portsmouth, Ohio. We currently serve Southern Ohio and Northeastern Kentucky through four full service banking centers. We are in the process of acquiring an institution in Cincinnati, Ohio that, if approved, will give us two additional offices. We have assets of $238 million and service another $31 million in assets from FNMA loans that we have originated and sold in the secondary market. We offer full service retail banking services to businesses and households within our markets. While there are several financial institutions that have a presence in our markets, we are the only community bank remaining in our market.

The market that we serve is located in the heart of Appalachia. While the area is blessed with a great deal of natural beauty it has been plagued with high unemployment and a high percentage of the population living in poverty. We have created a CDE and have been successful in utilizing programs through the SBA and USDA to provide financing to new and existing

503 Chillicothe St., P.O. Box 1583, Portsmouth, Ohio 45662 740-354-3177 FAX 740-354-3170

businesses in our market. Many times the projects that we finance would not happen without our involvement. During the most recent financial crisis we provided credit to several local businesses that either had their loans with the larger banks called or frozen. Whether working to provide needed capital to small businesses or in serving as a resource to our local schools and charities we are leaders in improving our community.

It is our desire to be able to continue our role in providing opportunity and leadership to our community. A strong economy is dependent on a strong and stable financial system. Absent stability in the financial system it is difficult for businesses to grow and create jobs. We want to make sure any new capital rules do not hinder our ability to provide products and services to our community or to appropriately manage other risks in our institutions. The following are our areas of concern:

I. **Requirement that gains and losses on available-for-sale securities must flow through regulatory capital.**

With the unprecedented low interest rate environment we have significant unrealized gains in our investment portfolio. If implemented this proposal would serve to immediately increase our regulatory capital. When rates rise this increase would be reversed and result in a corresponding reduction in regulatory capital. This volatility would occur even though there has been no other change to the risk profile of our balance sheet.

Depending on the rate and timing of any increase in interest rates the decrease in regulatory capital could be enough to trigger our capital management plan. This could result in us having to reduce our balance sheet simply to maintain regulatory capital ratios. This would negatively impact our small businesses customers and consumers and could happen at a time in which the economy is expanding. This would limit the availability of capital to consumers and small businesses and be a threat to any recovery.

We classify all of our investment securities as available for sale. If implemented we would most likely sell all of our securities and place any future purchases in Hold to Maturity. We will also have to limit the types and maturities of the securities that we purchase to reduce the amount of any price volatility to changes in interest rates.

We use our investment portfolio to manage liquidity, cash flows and interest rate risk in our balance sheet. Our investment purchases are chosen to offset or reduce risks that already exist on our balance sheet. This will take away our ability to use the investment portfolio as a tool to manage liquidity and interest rate risk.

We feel that the existing accounting standards appropriately quantify the level of risks in the investment portfolio. Current standards require a determination of temporary and permanent impairments to the market values of investment securities. Any permanent impairment already must be recognized in current earnings and regulatory capital. This was in place during the most recent financial crisis and many financial institutions were faced with recognizing significant write downs in their investment portfolios.

II. Increased Risk Weighting for Mortgage Loans

As a thrift, a significant portion of our business is providing mortgage loans to the communities that we serve. This proposal will result in us reducing the amount of mortgage loans that we provide to our markets. As a result of our knowledge of our markets, consumers and our underwriting guidelines we have never experienced significant losses on residential home loans. Through over one-hundred years in the business we have weathered several recessions and the Great Depression and residential home loans have never been an area of significant losses for our institution. The risk weighting of residential mortgages being proposed is higher than other loan types that, in our experience, have been much riskier.

The change of risk weightings from asset classes to individual loans will create an administrative challenge for our loan operations. Our operations staff is already tracking TDR's, loss histories, asset classifications, and preparing and analyzing our ALLL. We would have to add a position just to keep up with this proposal as the weightings must be continually reviewed and updated. Through the current regulatory structure we already must identify and properly value any impaired loans. The loans that are risk weighted have already been criticized and valued based upon risk. This proposal would cause these loans to be criticized twice.

After complying with this proposal the overall effect on regulatory capital may be negligible but the cost and effort to comply will be significant. The current structure already requires an evaluation of loans for impairment. Any loan that is impaired must be appropriately valued. Existing regulatory and accounting rule making already provide a framework to ensure loans used for regulatory capital purposes are appropriately valued and reported. This negligible benefit of this proposal is not justified by the enormous cost.

III. Credit Enhancing Representations and Warranties on 1-4 Family Residential Home Loans Which Have Been Sold Into the Secondary Market

We are not sure what representations and warranties will cause our bank to have to set aside capital. We have built a significant portfolio of loans that we have originated and sold to FNMA. We have provided this service to our market for the past five years and have significantly increased our mortgage banking activities in the past two years as we have assisted many households in refinancing their mortgages. In the five years that we have sold secondary market mortgages we have never had to repurchase one loan that we have sold into the secondary market. The institution that we are acquiring has not had to repurchase any loans during the ten years they have been in operation. We have not even had one foreclosure on any loan that we have sold into the secondary market.

This rule will potentially drive us out of a core part of our business. This will take away another tool that we use to manage interest rate and liquidity risk and reduce the availability of credit in our market.

IV. Change in Risk Weighting for Home Equity and Second Lien Loans

We currently hold approximately $17 million in home equity and second lien loans. We have provided these loans for over twenty years and rarely experience a default or delinquency in this segment of our portfolio. We have never as a practice tried to offer HELOC's to every borrower. Our underwriting criteria are such that we only offer this product to a select group of borrowers. Many of these borrowers use these loans to make improvements to their homes, send children to college or to provide capital to their small businesses. We have only offered an interest only option for the last three years and it is only available to borrowers with the highest credit scores and LTV's below 80%.

We use these products to give customers the best pricing possible for their loans. The risk weighting requirements under this proposal and the requirement to individual assign a classification to each loan will cause us to consider exiting this market. This will limit borrowers' access to credit and further constrain economic activity in our market.

V. Proposal to Increase Risk Weights on Delinquent Loans

Just like many other financial institutions across the country we have experienced a significant increase in our delinquencies over the past four years. We currently analyze our asset classification reports and our ALLL each month and we charge off all losses in a timely basis. The regulatory and accounting guidance related to the valuation and classification of impaired loans is very specific. We feel that the current guidance already ensures that our delinquent loans are appropriately valued. This proposal has the effect of requiring us to set aside capital twice.

If this proposal is implemented we will be forced to move delinquent loans off of our balance sheet more rapidly. We will have to reduce our efforts to work with borrowers to identify options other than foreclosure.

VI. No Exemption From the Basel III Proposed Rules for Small Savings and Loan Holding Companies

Under this rule, our holding company will be forced to comply with Basel III while bank holding companies the same size as us will be exempted. If implemented, this rule will subject our small shell holding company to all Basel III capital rules. We will have to create processes to comply with this requirement and this will put us at a disadvantage to small bank holding companies. Given that we share much the same operational and risk characteristics we do not understand why a distinction is being made in the granting of this exemption.

If this proposal is adopted we will be forced to evaluate our choice of charter. This will further occupy our time and resources and in the short term limit our ability to grow and serve our community.

In conclusion, the proposal as currently written will greatly impact our bank in the following ways:

1. This proposal will significantly increase the amount of capital that we hold beyond a simple increase in regulatory capital ratios. Each item in the proposal will increase our risk weighted assets with no change in our risk profile.

2. This proposal will result in significant costs and administrative changes to properly compute regulatory capital ratios. Very few community banks possess the staff or software necessary to compile or analyze this data. These increases in costs will in themselves have a negative impact on capital through reduced earnings.

3. This proposal will reduce our ability to manage all areas of risk in our institution. The regulatory structure evaluates and assigns scores to all financial institutions based upon the CAMELS framework. No risk exists in isolation and it is impossible to effectively manage a financial institution by concentrating on only one area of risk. This proposal places an undue amount of focus on capital at the expense of other areas of risk. This proposal will reduce our options in addressing every other component of risk except management. Just complying with this proposal may result in an increase in the overall risk profile of our institution. It is unclear if the corresponding increase in capital requirements would be sufficient to offset any overall increase in the risk profile of our institution.

While I fully support an increase in the minimum amount of capital that banks hold, this proposal will have a significant negative impact on most every community bank in this country. This impact will reduce the ability of households and small businesses to have access to capital. It will also further move our regulatory structure from a principals based to an overly strict rules based system. The current regulatory structure allows regulators to require higher levels of capital based upon the risk profile of the institution.

This proposal applies an overly restrictive one size fits all capital requirement that does not take into account the overall risk profile of individual institutions. I strongly encourage you to consider these risks to community banks and consider granting an exemption for most small institutions from the majority of these proposed rules. It is our desire to continue to serve and improve our community.

Sincerely,

Michael L. Gampp

Michael L. Gampp
President & CEO

cc: Senator Sherrod Brown
Senator Rob Portman
Congressman Bill Johnson
Congresswoman Jean Schmidt
Mr. Michael VanBuskirk, Ohio Bankers League
Mr. Michael Adelman, Ohio Bankers League