October 5, 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
Mai 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: Base II Docket No. 1442

Ladies and Gentlemen:

Thank you for the opportunity to comment on the proposed capital rules. These rules have implications throughout the banking industry, but are especially onerous for community banks like First National Bank of Girard. While the overall complexity and more stringent capital standards are problematic, the following specific issues are of particular concern:

- AOCI included in Common Equity Tier 1 Capital – Community banks have been asked to hold more on balance sheet liquidity, generally in the form of high quality AFS securities. Under the proposed rules, banks that have complied with the liquidity demands will be punished by adding significant volatility to the core capital measures. For example, our AFS portfolio represents 34% of total assets, and provides substantial liquidity and flexibility in managing overall interest rate risk. In a 300 basis point rate shock, our capital would be reduced by 12.76%. This is an unacceptable level of volatility, and will result in the bank shifting assets from high quality and high liquidity securities to higher risk or lower liquidity instruments or classifications (such as HTM portfolios). In addition, any economic recovery accompanied by rising rates is likely to be muted by banks restricting lending and risk as their capital is negatively impacted by their AFS portfolios.
- Mortgage Lending Changes – Community banks have historically depended on 1-4 family residential real estate lending as a core component of their business. In addition, community bank mortgage portfolios performed well through the financial crisis, and were generally not a source of substantial losses. Increased weightings will result in significant changes to the bank's risk based capital ratios.
- Cumbersome Measurement and Reporting – The level of detail required in order to calculate the proposed capital measures is far beyond the systems in most community banks. For example, our bank has substancial residential real estate loans, all of which have to be classified as Category 1 or 2 and stratified by LTV. None of this information is currently in our systems, and getting up to standard will require a massive project of manual entry. This is an extremely cumbersome drain on time, attention, and resources at a time when banks are already facing increased regulations and declining margins related to record low interest rates. It also appears

that our bank would be dramatically damaged since we have used balloon loans as a management strategy to imit our interest rate risk. Under proposals as I interpret them, all of these loans would be category 2 with no regard to the quality or strength of the credit. This is absurd and would unjustifiably cripple our bank.

The events of the last several years certainly justify improved capital standards. However, the cumbersome and onerous standards of Basel III were designed for large, complex, and international banks. Applying these same standards to community banks like First National Bank of Girard will have wide ranging (and largely unknown consequences). We understand the need for adequate capital, and are willing to comply with such standards, but believe smaller banks can get there without the Basel III standards that are neither appropriate nor applicable.

Sincerely,

John W. Lehman
President