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August 31, 2012

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

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

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

Proposed Rulemakings Regarding Regulatory Capital Rules

Dear Sir/Madam:

Susquehanna Bancshares, Inc. ("Susquehanna") appreciates the opportunity to comment on the Notice of Proposed Rulemaking ("NPR") issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation ("the agencies"), on the proposed changes to the agencies' current capital framework.

Susquehanna Bancshares, Inc. is a financial services holding company with assets of approximately $18 billion. Headquartered in Lititz, Pennsylvania, the company provides banking and financial services at over 260 branch locations in the mid-Atlantic region. Through Susquehanna Wealth Management, the company offers investment, fiduciary, brokerage, insurance, retirement planning and private banking services with approximately $7.5 billion in assets under management and administration. Susquehanna also operates an insurance brokerage and employee benefits company, a commercial finance company and a vehicle leasing company. At Susquehanna we are committed to building economic strength in the communities we serve in Pennsylvania, New Jersey, Maryland and West Virginia.

As is the case with hundreds of community and regional banks, Susquehanna's risk management strategy involves prudently managing its capital position by carefully evaluating credit risk, interest rate risk, operations risk, and market risk. The proposed changes are of significant concern not only to Susquehanna but to these banks as well and to the financial services industry as a whole for several reasons. Among them is the impact to earnings, additional resources required for implementation, potential change in balance sheet structuring/planning, customer impact (services and costs), and impact on the communities served. Specifically, we would like to offer our observations and viewpoints regarding the following proposed regulatory changes and their prospective impacts on Susquehanna as an institution committed to our stockholders and the communities we serve.

Proposed Regulation – General Impact

Susquehanna Bancshares, Inc. strongly believes that there is a need for an increased level of capital reform consistent with the Basel III framework. Susquehanna, however, being a community bank without a trading desk and only modest international endeavors in the form of currency exchange and international wire transfers, does not believe a complete rewrite of the capital framework is warranted for banks in the category and size of Susquehanna. Susquehanna does not add substantially to the systemic risk of the financial system. Community banks did not cause the near collapse of the financial system. In fact, it can be strongly argued that banks like Susquehanna were more casualties of the near collapse rather than contributors.

With the lack of clarity in interpretation and the myriad of questions arising from the proposed regulations from both Basel III and the Dodd Frank Act, Susquehanna believes the regulators, in trying to work in the best interest of the public, have created a regulatory environment which promotes a certain level of confusion and uncertainty in the industry. For example, the proposed rules on the treatment of cash flow hedges as they relate to hedging short-duration liabilities that fund bond portfolios have the potential to increase interest rate risk since banks will have less incentive to implement these hedges. This uncertainty will have a ripple effect across the economy that will cause banks such as Susquehanna to be cautious in conducting transactions that were once beneficial to its customers and the communities they serve. The added regulatory cost of these new proposed rules will slow new hiring for traditional customer-facing banking services and, instead may lead to additional staffing for regulatory compliance, further constraining the ability of the organization to drive economic growth.

Susquehanna has always been very involved in the communities it serves. The management of Susquehanna believes the proposed regulatory constraints would not support the credit and financial needs of an economy which is expected to grow at a 3 ½% to 4 ½ % rate during a normal economic recovery. Community banks of all sizes will eventually need to consolidate, sell, or become substantially less profitable under the current and proposed regulatory environment. We are of the opinion that this will substantially increase systemic risk, not decrease it as banks in excess of $50 billion absorb smaller banks and thus concentrate risk.

Proposed Treatment of Unrealized Gains and Losses (AOCI)

The proposed treatment of unrealized gains and losses with respect to debt securities could cause significant volatility in required capital levels. Unrealized gains and losses on securities are often the result of changes in general interest rate levels rather than due to changes in credit risk of a specific security. Approximately 95% of the securities in Susquehanna's investment portfolio are rated "AA" or better with only 2.7% of the portfolio below investment grade. A substantial amount of Susquehanna's change in portfolio value is temporary based on the current rate environment, as is the case with other regional and large community banks. While this change may not be of great consequence in the current low interest rate environment, future increases in interest rates in general could result in significant additional regulatory capital requirements based merely on macroeconomic factors that are not correlated to the credit risk of an underlying security. We believe that the proposed changes could hinder the ability of banks to contribute to a future economic recovery in a rising interest rate scenario. Under a rising rate scenario, banks will need to hold additional capital as a further buffer. Holding additional capital as a means of prudent capital management is expensive to the bank and does not provide a benefit to the banking community or to the economy. In order to mitigate these costs, banks may choose to shorten their investment portfolios, thereby avoiding instruments which today directly benefit the communities where they do business such as municipal offerings. This reaction would only add additional risk to an already fragile economic recovery and create the potential of true systemic risk as it relates to the growing funding gaps of our state and municipal authorities.

Proposed Treatment of High Volatility Exposures

Proposed changes to capital requirements for many types of loans would result in a decreased appetite for such loans by banks or necessitate significant increases in loan pricing in order to compensate for additional capital requirements. The resultant effect would be costly to our borrowers and could produce unintended ripple effects in related industries such as, construction and building materials, which would further contribute to a prolonged economic slowdown. Susquehanna believes that the definition of highly volatile loans should be based on the underwriting and collateral factors. In combination with underwriting standards, definitions should take into consideration collateral types (real estate improvements, marketable securities, etc., in addition to or as a substitute for cash), market value/liquidity, and draw ratio. For example, a CRE or general purpose loan should not be automatically classified as a highly volatile loan if adequate collateral, other than cash only, is held.

Trust Preferred Securities

Under the Collins amendment to Dodd-Frank act, TRUPS issued before May 19, 2010 by banks with consolidated assets of less than $15 billion as of December 2009 would be treated as Tier 1 capital. Susquehanna has since grown through two acquisitions over the year to $18 billion. Susquehanna believes that the capital treatment should have remained according to the law and not be subject to interpretations otherwise. Susquehanna views such interpretations as counterproductive and as adding additional uncertainty for future bank balance sheet planning.

Conclusion

Whereas Susquehanna recognizes the need for greater regulatory oversight and uniformity as proposed by the Dodd-Frank Act and Basel III, we believe that the proposed rules would result in unintended consequences for community banks like Susquehanna. Community and regional banks are essential to support job creation among small and middle market businesses that form the foundation of any economic recovery. We caution against finalizing rules that would place undue regulatory burdens on community banks that collectively fill the role of an important economic catalyst in the communities they serve. We thank you for the opportunity to share our views and look forward to continued discussions. As noted previously, community banks such as Susquehanna were not a factor in the near financial collapse of the banking industry, nor was the prudent use of derivatives to manage and offset risk. The majority of community banks do not participate in sub-prime lending programs nor do they finance highly leveraged transactions. The increased regulatory burden outlined will decrease the role of the community banks in serving their communities.

We appreciate your consideration of our comments on the proposed rules. Please contact the undersigned at (717) 625-6400 or via email at Drew.Hostetter@susquehanna.net with any questions regarding our comments.

Best regards,

Drew K. Hostetter

Drew K. Hostetter
Executive Vice President and Chief Financial Officer
Susquehanna Bancshares, Inc.