PEOPLES INDEPENDENT BANK

August 31, 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, S.W.
Mail Stop 2-3
Washington, D.C. 20219

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

Re: Proposed Regulatory Capital Rules: Regulatory Capital, Implementation of BASEL III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (R-1442, Docket ID OCC-2012-0008, RIN 1557-AD46, RIN 3064-AD95)

Proposed Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets, Market Discipline and
Disclosure Requirements (R-1442, Docket ID OCC-2012-0009, RIN 1557-AD46, RIN 3064-AD96)

Ladies and Gentlemen

I appreciate the opportunity to submit comments on the above referenced notices of proposed rulemaking (NPRs). I also appreciate the regulatory agencies desire to meet the demands of the Dodd Frank Act and to address perceived weakness in the banking industry's capital framework across a broad and diverse universe of financial institutions. I am sure that I cannot fully understand all of the proposals in the NPRs but would like to comment on the obvious provisions that will have a negative impact on my bank.

Proposed AOCI as a component of Tier 1 capital.

To allow unrealized gains and losses to debt securities whose valuations primarily change as a result of fluctuations in a benchmark interest rate, as opposed to change in credit risk to be included in regulatory capital metrics will increase volatility and create confusion over the adequacy of the capital ratios. While we manage and hold our securities in our portfolio as AFS we do not hold them for short-term trading gains and losses. These securities are held to collect cash flows during the life of the security. The duration of our investment portfolio is 3.64 so an immediate 300 bp rise in interest rates would have a $7,500,000 negative effect on our market value and capital ratio. This would lower my leverage ratio from 9.69% to 5.49% and introduces the risk of inaccurate capital adequacy conclusion and have significant regulatory repercussions that are not related to credit risk.

The AOCI inclusion for AFS securities applies mark-to-market treatment to only one set of assets on our institution's balance sheet. Other balance sheet components that are economically very similar do not receive the same treatment, such as loans, structured liabilities, and HTM securities. This appears to violate the basic accounting principle of consistency. Additionally it would in effect weaken our institution's asset-liability management; specifically, it adds a potential capital penalty on using the securities portfolio, the most flexible tool at ALCO's disposal, to reduce overall asset sensitivity while leveling no such penalty on any other balance sheet component.

As an example of why this does not make sense is a case that has just happened. We had an opportunity to cooperate with the other local banks to make a loan to our local Hospital rather than have them do a bond issue. The loan is on a 20 year amortization with a fixed rate. This interest rate risk is not measured in AOCI as a loan, but had this been made into a bond with an assigned Cusip attached, it would have capital ramifications as interest rates change even though it is the same risk.

The negative impacts of these effects would fall disproportionately upon community banks, such as ours, due to the limited access to capital markets for funding and temporary equity enhancements.

Standardized Approach for Risk-weighted Assets

The Agencies proposals for a wider range of risk weightings for residential mortgages based upon two risk categories based on underwriting criteria(traditional vs. Nontraditional) and loan to value ratios will have a significant negative impact on our risk based capital. Including all balloon loans as a high risk product feature and moving such loans to a higher risk category will penalize most community banks who portfolio local residential loans and use the balloon feature to manage interest rate risk. The criteria for Category 1 loans need to more clearly defined so that prudently underwritten loan products are not unfairly targeted. Our bank only offers a 15 year amortizing residential loan with a seven year interest rate call. Our standards include consideration and documentation of the borrower's ability to repay. Our loans are limited to a maximum 90% loan to value, but we rarely exceed 85% LTV. We do not offer a 30 year amortizing portfolio loan. To characterize one of our safest credits (historically low losses) as higher risk and require higher capital because of an ill conceived perception seems unreasonable. The shorter amortization mitigates the credit risk and the rate adjustment mitigates the interest rate risk.

Proposed Rule: Past Due Exposures

To account for the potential loss exposure of these problem loans, banks make periodic provisions to their allowances for loan and lease losses (ALLL). If the ALLL is calculated properly and reflective of the risk of loss in the loan portfolio there should be no need to create an additional capital charge

I have are many other concerns i.e Securitization Exposures and the opportunity for many far reaching unintended consequences to changes in residential mortgage risk weights, new requirements for common equity capital, the phase-out of trust preferred securities and other requirements will deplete capital positions, causing community banks to fail to meet new regulatory minimums. I would respectfully request the regulators to exempt community banks from proposed Basel III capital rules and to allow community banks to continue operating under Basel I capital regulations.

Sincerely,

Royce G Ogle
President