

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street Constitution Avenue, NW
Washington, DC 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, NW
Washington, DC 20429

Re: Basel III Proposals

Dear Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the potential negative impact of Basel III on our bank. Revere Bank is a community bank founded in 2007 in Laurel, Maryland. We are focused on meeting the lending and banking needs of small to medium sized businesses in our market area. In our five year history we have experienced strong growth. We are now over \$350 million in assets, of which over \$300 million are in loans.

We recognize the need for reform given our current financial crisis, but we are concerned about the limits placed on our ability to meet the funding needs of our customers if Basel III is adopted in its proposed form. The current proposal increases the minimums set for capital leverage ratios and further increases the capital needed to meet these new minimums by changing the formulas used to calculate these leverage ratios. Under the proposals for these leverage calculations what qualifies as capital has been narrowed and the factors used in calculating risk weighted assets has been increased. As a community bank that was launched during, and is successfully navigating, one of the worst economic cycles in our country's modern history we find these proposals to be an obstacle to our growth and our ability to meet the credit needs of our customers. While the majority of the new regulations are applied

to “highly complex” institutions there are several that stand out in their impact upon us and other community banks.

Specifically,

- Inclusion of investment portfolio’s available for sale gains and losses in our capital calculations: Given the current low interest rate environment, the majority of banks currently have a gain in their portfolio. Once rates start to rise we will see immediate reversals of these gains and a decrease in capital ratios. In planning for a rise in rates, the majority of banks will alter their investment portfolio to manage this capital implication rather than strategically mitigate other risks in their balance sheet such as interest rate risks and liquidity risks. This trend will create riskier banks which is not the intention of this regulation.
- Increase of risk weighting factor on loans 90 days past due or on nonaccrual: Loans in this category are trending towards a charge-off and are already under significant review by banks in their allowance for loan loss calculations. As a result these loans will have a higher reserve in loan loss allocation and their risk is already mitigated through provision expense and therefore capital allocation. Having a higher allowance for loan loss reserve and a higher asset risk weighting factor produces the possibility for double counting of required capital. This double counting increases the required capital for this area reducing our ability to lend to other customers.
- Exclusion of loss carry forward in deferred tax asset: This change decreases capital and limits a bank’s ability to lend. As a denovo we currently have a loss carry forward in our capital calculation. While we expect to have used the majority of our loss carry forward prior to expected implementation of Basel III, we feel that this exclusion limits access to our industry reducing the number of competitors, which is good for us, but bad for our industry as a whole.
- Increase of risk weighting to residential mortgages: The majority of our loans are to small business owners. Often their most valuable asset is their primary residence which we take as collateral for their business loan. We believe that this collateral strategy adds to the strength and quality of these loans. The creation of category 1 and 2 residential mortgage classes could limit our ability to employ this strategy. The increased capital required for a category 2 loan

would limit our ability to meet the lending needs of our small business community. Another issue with the category 1 and category 2 groups is the required granularity and the added staffing expense needed to achieve this detailed monitoring. The requirement that previously booked loans be subjected to category 1 and category 2 typing would create significant added expense which would reduce net income and therefore capital and our ability to lend even further.

- The treatment of off balance sheet items as on balance sheet items: the inclusion of sold loans still in their recourse period as an on balance sheet item with a risk weighted asset factor limits our lending ability in this area by increasing the required capital for this segment. This limit translates into less competition among banks for residential mortgages and leads to higher pricing and less innovation for our customers.

Thank you for reviewing my comments above. I agree that our industry needs reform. But, remember it takes over one thousand hundred million dollar banks to add up to one Bank of America. Please do not confuse community banks with our significantly larger competitors.

Sincerely,



Carrie Quinn

Revere Bank