



October 12, 2012

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429  
Delivered via email: [comments@FDIC.gov](mailto:comments@FDIC.gov)

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
Del. via email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Office of the Comptroller of the currency  
250 E Street, S.W.  
Mail Stop 2-3  
Washington, D.C. 20219  
Delivered via email: [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)

**RE: Basel III Capital Proposals**

Ladies and Gentleman,

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency.

Northwest Community Bank is a \$330 million state chartered mutual bank established in 1860 and located in Winsted, CT. The bank is owned by Connecticut Mutual Holding Company, a three bank holding company which also owns Litchfield Bancorp, a \$210 million mutual based in Litchfield, CT, and Collinsville Savings Society, a \$145 million mutual located in Canton, CT. Between our three banks, we currently operate 14 branches throughout Litchfield and Hartford counties. As of June 30, 2012, Northwest Community Bank had Tier 1 Leverage Capital of 10.93%, Tier 1 Risk Based Capital of 20.64%; and Total Risk Based Capital of 21.89%. CT Mutual Holding Company had Tier 1 Leverage Capital of 9.50%, Tier 1 Risk Based Capital of 16.97%; and Total Risk Based Capital of 19.18%.

Our banks play a major role in community banking in Connecticut and this is a role we take very seriously. We have been committed to the individuals and businesses located in our communities for over 150 years by providing them competitive loan and deposit services. We are a major financial contributor to the various non-profit organizations in our communities and

I'm more proud to state that nearly every one of our employees volunteers their time to these terrific causes. In summary, our impact on the communities we serve is strong and steadfast.

While we are in favor of strengthening the quality and loss absorption safeguards in the financial institutions sector and it is our intention to maintain capital above the minimum required levels, we find several areas of the Basel III proposal to be troubling and perhaps unworkable for mutual banks with limited access to capital. The capital requirements of Basel III may be appropriate for large domestic banks and foreign banks, however, they are not appropriate for community banks. Community banks had little to do with this economic downturn which was largely created by the misuse of sub-prime and Alt A residential loans made primarily outside of the banking system and securitized by large investment banks. The community bank model is much different than the large banks in that we are very familiar with our customers and the risks associated with lending to them.

A major area of concern is the inclusion of gains and losses on available-for-sale securities in the common equity Tier 1 computation. Northwest Community Bank has a \$110 million investment portfolio with approximately \$3.9 million in unrealized gains. Requiring the recognition of unrealized gains and losses on available for sale securities will have a substantial impact on our bank's capital accounts as market fluctuations will create great volatility of the bank's capital. We have the capability to hold these assets until maturity and should not have to mark the gains and losses and create these large swings in capital as interest rates change through normal business cycles.

We also feel that the proposed risk-weighted framework under Basel III is overly complicated and will impose an onerous regulatory burden penalizing community banks and further jeopardizes our ability to contribute to the economic recovery. We are active lenders to first-time home buyers and the proposed elimination of mortgage insurance in calculation of the loan-to-value ratio will increase the cost of mortgages for first time home buyers. We are also actively engaged in home equity lending and the proposed risk rates of up to 200 percent are punitive and will restrict the availability of this strong line of business for community banks.

One of the most troubling aspects of this proposal is the fact that it will result in increased costs to our bank as we will be forced to increase our staffing and purchase new software to manage the complexity of this proposal. This increase to our regulatory burden comes at a time when we are already faced with significantly increased regulations in our industry. Again, while we agree that the Basel III proposals are needed for very large banks, imposing these onerous requirements on community banks is not reasonable. It has been stated that the impact on community banks will be minimal which will likely be the case for our bank based upon our strong capital position. However, if the impact is minimal, then why put community banks through the rigorous, complex and expensive calculations required to measure these risk ratings?

While we support the requirement for banks in our country to maintain satisfactory capital levels to maintain the integrity of our banking system, the cumulative effects of the items listed above will have a severe impact on the community banks in Connecticut and throughout this country. For these reasons, I strongly urge you to consider this impact and to consider an exemption for community banks to these rules. As mutual banks, we need to maintain our focus on the commitment we have in serving our communities and the vital role we play in strengthening our local economy.

Sincerely,



Stephen P. Reilly

President & CEO

Northwest Community Bank and  
Connecticut Mutual Holding Company

CC: Senator Joseph Lieberman  
Senator Richard Blumenthal  
Honorable Howard Pitkin, CT Department of Banking  
Lindsey Pinkham, CT Bankers Association