Windsor Federal

SAVINGS

Neighbors Helping Neighbors Since 1936

October 17, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 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: Basel III Capital Proposals

Ladies and Gentlemen:

"Neighbors helping neighbors since 1936" is the guiding theme of how Windsor Federal Savings and Loan Association conducts its business. The Basel III regulations as currently proposed has the potential to forever alter the ability of our association to fully meet the needs of our community.

Windsor Federal is a $386 million mutual institution that has been servicing our community for more than 76 years. As a mutual institution we have judiciously managed our capital. The only way that we grow our capital is by retained earnings. In my opinion we have done a good job while being one of the primary economic drivers in our community.

I have a number of concerns with the proposed regulations, the first and foremost is the mark to market provision of our available for sale securities. Our investment philosophy is conservative with the overwhelming majority of our $120 million investment portfolio made up of fully government backed securities. These investments have little, if any, risk of loss but are subject to interest rate risk that we manage very closely. We have purposely kept the duration of our portfolio short and have structured the cash flows carefully to meet our current and future liquidity needs. In addition we pledge a portion of our portfolio to meet the state requirements for municipal deposits. We also use the securities for customer repurchase agreements which will be even more important as the Transaction Guarantee Program (TAG) expires. We have performed a 3% shock test as of June 30, 2012 on our investment portfolio which would result in a decrease of our capital of $10 million dollars resulting in our leverage

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ratio decreasing from 10.9% to 8.3% and our risk based decreasing from 19.70% to 14.4%. These dramatic changes to our capital levels occurred for no other reason than a change in the interest rate environment.

The impact of the change in the interest rate level illustrated above has a dramatic impact on our legal lending limit. The change illustrated would decrease our legal lending limit by $1.5 million. In a small community like ours decreasing our legal lending limit would be a very noticeable event that can cause customers and the community at large to question the financial health of the institution. Our alternative would be to set an artificially low loan limit to avoid any misconception about the association's reputation which ultimately reduces lending in our community.

As a thrift institution we have a long history as a mortgage lender. We have been prudent in managing the institutions interest rate risk by selling our longer term mortgages but as a community institution we have retained the servicing rights. The proposed regulations cap the value of those rights in a rising rate environment, this seems to counter intuitive since there is no cap on the amount that our available for sale securities can be reduced in value in same rising environment.

My next concern with the regulations had to do with the risk ratings of the 1-4 family mortgage loans. It doesn't make sense that if you make a home equity loan to a customer that you already have a first mortgage loan to you will have to potentially risk rate the existing mortgage under the category II schedule. This penalizes institutions unfairly because the risk on the first mortgage has not changed and it will discourage lending to customer that you know well and potentially result in less credit availability and/or more expensive credit cost to the consumer.

Finally it doesn't make sense to not exempt small thrift holding companies from these regulations if small bank holding companies are exempt.

The current examination process for small community institutions like ours works. The comprehensive exams conducted by the OCC and its predecessors have allowed the regulators to understand our business model and have been our partners that have allowed us to serve our community for 76 years. As a community lender we know our customers, they are not just a number to us. Under the current system I feel that our regulator knows our institution and we are not just a number to them. The adoption of the Basel III Capital proposals is going to reduce the evaluation of the risk profile to a number similar to a consumers credit score. The ultimate losers in this scenario are going to be the consumers and small businesses of Main Street across this country. As a community banker I strongly urge you to rethink the current regulations as proposed.

Sincerely,

George W. Hermann
President & CEO

CC: Senator Richard Blumenthal
Congressman Joseph Courtney
Congressman John Larson