Country Bank for Savings

October 17, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Delivered via email: 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

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

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

Country Bank for Savings is a $1.4 billion, state-chartered mutual bank established in 1850. We are located in central Massachusetts and currently have fourteen branch locations. Since 1850, Country Bank has remained dedicated to its role as a community bank, helping the hard-working residents of the community provide for their families, grow their businesses and enhance their quality of life. During these one hundred and sixty two years, County Bank has weathered the highs and lows of fluctuating economies, yet maintained its tradition of financial strength, customer focus, and serving the

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community. As the national and local economies and financial markets continue to reflect uncertainty, Country Bank is just as committed as it has been since 1850 to provide for the well-being of its customers and region.

That being said, it is extremely difficult to focus on our customers and community when we are continually placed under greater regulatory burdens that are a result of a financial crisis in which community banks had very little part. Regulations, such as Basel III, may be necessary at the larger, national and international financial institution level, but they are not necessary at the community bank level.

Country Bank is an advocate of higher capital levels and we have continually maintained our levels above the current well capitalized category. As a mutual our only source of capital is earnings and the continued increase in regulatory burden impacts a community bank's earnings significantly. Community banks continue to pay for the transgressions of the much larger financial institutions and their sub-prime, and aggressive lending activities. Beyond the obvious concerns of a mutual institution when it comes to the Basel III impact, which will only serve to reduce the regulatory capital position with no source of external augmentation; there are numerous other concerns that pertain to all community banks as outlined below.

One area of concern presented by Basel III is the requirement that unrealized gains and losses on available for sale securities will be included in the common equity Tier 1 component. With a total securities portfolio of $450 - $500 million, this unrealized gain or loss can be a very large number and at June 30, 2012 was close to $14 million. The fluctuations in the market and interest rates will have a tremendous impact on this figure and result in creating large swings in capital. The purpose of the investment portfolio is to allow the bank to manage liquidity and to have a way to make use of excess cash when loan demand is low. This Base III requirement may force the bank to recode securities as held to maturity, which in turn impacts the bank's ability to lend to our customers, or to keep excess funds in short-term investments, which could lead to decreased earnings.

A second concern with the proposed rules is in regards to residential mortgages. These proposed risk weighting changes clearly place a greater strain on capital levels, which in turn causes pressure on residential loan pricing. Basel III in this regard will make mortgage loans more difficult to obtain and more costly to the bank and its customers. In order to meet our customer's needs, it is often necessary to write nontraditional mortgage loans. The bank is very familiar with our customers and the related lending risks and just because the loan is not traditional does not mean that a risk weighting of between 100% and 200% is necessary especially considering a community bank's knowledge of its customers. Again, the proposed rules will have a negative impact on both the customer's access to credit and the bank's earnings.

A third area for concern with the proposed Basel III rules is regarding home equity lending. Our bank is actively involved in home equity lending. The punitive risk weights of up to 200% will both increase the cost of credit to the consumer and will have the effect of restricting the availability of consumer credit. It seems that the intention of these higher risk weightings on both home equities and on certain types of residential mortgages is to hold additional capital as a buffer against risks associated with the respective loans. Is this not the purpose of the allowance for loan losses (ALLL)? The ALLL analysis already includes components of risk such as LTVs, credit scores, delinquencies, charge offs and local and national economic conditions. The additional risk weights represent unnecessary and redundant sources of capital allocation that will drive up the cost of credit to the consumer and again restrict the availability of consumer credit. This will result in driving up capital levels at all community banks, which are already at historically high levels.

A fourth concern with the proposed rules relates to increasing risk weights on high volatility commercial real estate loans. As discussed above, this is another redundant means of raising capital requirements in community banks. The risks associated with this loan type are assessed in the ALLL analysis, which appropriately provides for the inherent risks and ultimately provides the necessary capital buffer.

The fifth area of concern with the proposed Basel III rules relates to increasing the risk weights on delinquent loans and is yet one more redundant means of raising capital requirements. Delinquent loans are already considered in the ALLL analysis. Community banks are already highly regulated in this regard and are criticized severely if the ALLL and capital levels are not sufficient to mitigate the delinquency risks. This could potentially impact a community bank's willingness to work with a borrower to resolve their financial issues and allow them to stay in their homes. Again this redundancy in capital requirements is both unfair and unnecessary.

The last point that should be made regarding the proposed Basel III rules is that the magnitude of the information necessary to be able to complete the new capital calculations is huge. The data requirements will require the collection and compiling of new information in order to calculate the risk weights of assets at all community institutions. The bank will incur added costs of new software, new systems and perhaps added personnel in order to comply with the very complex calculations. The result will be new costs, additional regulatory burden for our institution and the potential to impact credit availability to the consumer.

In summation, Country Bank for Savings believes that the cumulative effect of each of the items discussed above will have a significant impact on most of the community banks in the country. The Basel III rules may be needed for very-large domestic and foreign financial institutions that have been allowed to operate with much lower levels of capital than community banks. But, requiring all financial institutions to comply with these onerous requirements is not reasonable and is considered unnecessary given community banks generally conservative lending and investing patterns in concert with the historically high levels of maintained capital. Country Bank strongly urges all of the agencies to consider the significant negative impact that these requirements will have on community banks and to consider a possible exemption for all community banks for the majority of these rules.

Country Bank for Savings would like to remain committed to its role as a community bank in providing the best possible service to its customers and the community.

Thank you for your consideration.

Sincerely,

Mary C. McGovern

Mary C. McGovern
Chief Financial Officer
Country Bank for Savings

CC: Senator John Kerry
Senator Scott Brown
Representative Todd Smola