From: Anthony Caruso [mailto:ACaruso@thebankofcanton.com]
Sent: Thursday, October 18, 2012 8:16 AM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Attention: Federal Deposit Insurance Corporation

Date: October 18, 2012

To Whom it May Concern:

I am writing in my capacity as Senior Vice President / Retail Banking of the Bank of Canton, a 176 year-old mutual savings bank located in Canton, Mass with $625 million in assets and $59 million of total capital. The purpose of this correspondence is to register my opposition to the proposed Basel III capital standards. The following provisions contained in this proposal will be significantly detrimental to our Bank and community banks like ours.

1. The elimination of Trust Preferred securities from capital will cause us to restrict our growth. As a mutual savings bank we have no shareholders and can only increase our capital levels thru earnings or by decreasing our size. We currently have $10 million of Trust Preferred securities outstanding. At a minimum we would need to restrict our growth to offset the elimination of this capital. We would probably need to actually shrink our assets to ensure adequate capital levels.
2. We have a very successful residential lending business. Over the past four years we have originated and sold over $3 billion in residential loans. On an annual basis our residential loan sales volume normally exceeds our total assets. The inclusion of loans sold that are still "under warranty" in the capital calculation could increase our risk-weighted asset level by as much as 25%-30%, requiring a similar amount of additional capital (which I estimate at $15 million). Because of the unpredictability of lending volumes we would have to hold capital equal to the projected peak volume levels. If this provision is included in the final regulations we will have to drastically reduce or eliminate this line of business. As a mutual bank we would not be able to raise the capital necessary to support it. Residential lending is a core banking function that significantly benefits our community and our Bank. The amount of the capital charge also seems to totally unrelated to the risk level. We have never repurchased a loan due to the "early default" provision nor have we incurred any losses from loans we have sold. From a "risk" standpoint the $15 million capital requirement is clearly too high to support an activity that does not have a history of losses.
3. The inclusion of unrealized gains and losses on investments where the par value of the security is expected to be paid at maturity (i.e., bonds) will cause unnecessary volatility in capital levels. Our Bank currently has significant levels of unrealized gains that may in fact never be realized – they could disappear tomorrow if market interest rate were to rise. These "market" gains shouldn't be relied upon as capital to support the Bank's operations. Similarly, losses shouldn't be deducted from capital until they are realized as long as the bond is expected to be redeemed at par at maturity. A bond's market price will fluctuate, but as long as the securities par

value is expected to be paid at maturity these temporary holding gains and losses are not an appropriate addition or deduction to capital.

Thank you in advance for your consideration of my comments and concerns.

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