Cape Cod 5
Member F.D.I.C.
THE CAPE COD FIVE CENTS SAVINGS BANK

P.O. Box 10 • Orleans, Massachusetts 02653-0010 • (508) 240-0555

Cape Cod's
Community Bank
Since 1855

October 19, 2012

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

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W. Washington, D.C. 20551
Delivered via email: regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Delivered via email: regs.comments@occ.treas.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

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

The Cape Cod Five Cents Savings Bank is an independent community bank headquartered in Harwich Port, MA and founded in 1855 with $2.2 billion in total assets. We hold the leading deposit and mortgage lending market share in Barnstable County and operate 16 branch offices in Barnstable and Nantucket County, 3 Loan Production Offices in Dukes, Nantucket, and Plymouth County and stand alone ATMs in multiple locations. The Cape Cod Five Cents Savings Bank is a local leader in first-time homebuyer affordable housing programs and has been recognized as the leading lender in Barnstable County for MassHousing, the state's major housing finance agency. In addition, we are a strong supporter of Small Business Administration lending and are currently the 13th leading lender for 7(a) loans and 9th leading lender for 504 loans in the state.

While we are in favor of promoting increased stability in the banking sector and intend to hold capital above the minimum required levels, we do have several concerns with the current proposals. We believe that, as written, they will have a negative impact on community banks such as ours by increasing cost and regulatory burden thus reducing our ability to effectively serve our customers and communities. Our areas of concern with the proposal are as follows:

Treatment of Unrealized Gains and Losses

We are concerned that the current proposal to flow all unrealized gains and losses on available for sale (AFS) securities through common equity tier 1 (CET1) would add a significant amount of volatility to capital ratios. In AFS portfolios, unrealized gains and losses occur primarily as a result of movements in interest rates as opposed to changes resulting from credit risk. Particularly on debt securities, interest rates can fluctuate frequently, leading to a significant amount of volatility in capital calculations with the proposed rule. This could have the effect of reducing the amount of portfolio lending that the Bank and other community banks can undertake.

New Method of Risk Weighting

We believe that the proposed risk weighting framework under Basel III is too complicated and will be an onerous regulatory burden for community banks. Of particular concern are increases in risk weighting for the following categories:

<u>1-4 Family Residential Real Estate Loans</u>

A significant portion of our business is residential lending. The proposal will require institutions to collect and report new, detailed information on underwriting criteria and loan-to-value ratios in order to determine risk weights on individual loans as opposed to asset classes. This will require new systems and workflows which will increase costs for community banks. Further, in most cases, existing loans are not grandfathered and, therefore, the new information will need to be collected on the bank's existing portfolio which will be both time-consuming and costly, with little or no benefit.

Another concern in this particular area is that the proposal does not recognize private mortgage insurance as a compensating factor in calculating the LTV ratio or risk weightings. Private mortgage insurance currently enables community banks such as Cape Cod Five to make higher loan-to-value mortgages, particularly for first time homebuyers, while mitigating the Bank's risk. New risk weightings on these loans will cause community banks to consider reducing residential lending in these programs and will hinder our ability to serve the community.

<u>Past Due Loans</u>

We feel that increasing the risk weights on delinquent loans is redundant as delinquent loans are now considered in the Allowance for Loan and Lease Loss analysis. Community banks are already highly regulated in this area and face intense criticism when not adequately reserving for potential losses. As such, an increase in risk weights on these loans appears to be unfair to community banks and may lead to unintended consequences, such as a bank moving delinquent loans more quickly off of their balance sheet as opposed to working with borrowers to keep them in their homes.

Community Bank Applicability

Lastly, we question the applicability of Basel III standards to community banks, which did not engage in the highly leveraged activities that severely depleted the capital levels of the largest banks and contributed to the financial crisis. Community banks are specifically designed to serve customers in their respective communities on a long-term basis and already practice common sense approaches to managing risk. Applying the Basel III standards as written will impose unnecessary regulatory burden and cost.

In conclusion, we urge you to consider the impact that these new standards will have, particularly on community banks, which have historically served their customers and communities in a prudent manner.

Sincerely,

Dorothy A Savarese

Dorothy A. Savarese
President and Chief Executive Officer
The Cape Cod Five Cents Savings Bank