The NEWBURYPORT FIVE CENTS SAVINGS BANK

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, NW
Washington, D.C. 20551
regs.comments@federalreserve.gov
Docket R-1430 and R-1442; RIN No. 7100-AD 87

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219
regs.comments@occ.treas.gov
Docket ID OCC-2012-0008 and OCC-2012-0009;
RIN 1557-AD46

Robert E. Feldman
Executive Secretary
Attention: Comments/ Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
comments@fdic.gov
RIN 3064-AD95 and RIN 3064-AD96

RE : BASEL III Capital Proposals

Ladies and Gentleman:

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

The Newburyport Five Cents Savings Bank is a $633 million mutual savings bank located in Newburyport, MA. We have six branches serving northeastern Massachusetts and southeastern New Hampshire. We have a Leverage Ratio of 15.96% and a Total Risk-based Capital Ratio of 23.06%. While we have a strong capital position, we believe that the proposed capital regulations will substantially impact the Bank's ability to meet the credit needs of the communities we serve.

Specifically, I am opposed to the following lending components of the Basel III Proposal:

THE NEWBURYPORT FIVE CENTS SAVINGS BANK

SIXTY-THREE STATE STREET-NEWBURYPORT, MA 01950-TEL: (978) 462-3136 FAX: (978) 462-9672
TWENTY-SEVEN HIGH ROAD-NEWBURY, MA 01951-TEL: (978) 462-2645
CROSSROADS PLAZA-SALISBURY, MA 01952-TEL: (978) 462-8771
TWENTY-ONE STOREY AVENUE-NEWBURYPORT, MA 01950-TEL: (978) 462-0722
FORTY FRIEND STREET-AMESBURY, MA 01913-TEL: (978) 388-3157 FAX: (978) 388-3196
FORTY THREE MAIN STREET-AMESBURY, MA 01913-TEL: (978) 388-1102 FAX: (978) 388-2607

www.newburyportbank.com

- Revised Risk Weights for Past Due Loans

  The proposal would increase risk weighting for past due loans. While the proposal for changing risk weightings for residential mortgages based on the loan's LTV, this proposal for past due loans assumes that past due status alone should result in a higher capital requirement. Current accounting requires that the Bank's Reserve for Loan Losses take into consideration the value of collateral when calculating the reserve for problem loans. This capital proposal would likely overcompensate for the risk of loss when combined with the reserves established through accounting for the Reserve for Loan Losses.

- Ignoring Private Mortgage Insurance

  The proposal would increase risk weighting for high LTV loans, even if private mortgage insurance is in place for the loan. While there certainly have been issues with the ability of private mortgage insurance companies to fulfill their obligations in the past five years, there were many decades when the companies were able to fulfill their obligations. It is not appropriate to totally ignore the value of this important part of the first-time homeowner residential housing marketplace. In fact, we live in an economic era when we should be encouraging banks to make loans to qualified first-time home buyers.

- Revised Risk Weights for Residential Mortgages

  The proposal would increase risk weighting for high LTV junior liens. Junior liens are going to be an important economic solution as interest rates return to more normal levels. Consumers will want to improve their homes but not refinance low interest rate first mortgage loans made possible through the Federal Reserve Bank's current effort to drive down interest rates. Junior liens will be an important way for consumers to use accumulated equity to maintain and improve the condition of their home.

The above three bullet points specifically address concerns about the risk weighting of residential mortgage loans. Geography and economic situations make each Bank's risk situation different. A bank's Reserve for Loan Losses takes into consideration these situations as they apply to a Bank. The proposed Basel II regulations do not adequately take into consideration the uniqueness of community banks' individual situations.

I am also opposed to the following investment components of the Basel III Proposal:

- Inclusion of Accumulated Other Comprehensive Income (AOCI) in Tier 1 Capital

  The proposal would define Tier 1 Capital as including net unrealized gains and losses on investment securities. The Bank has approximately $78 million of fixed income securities and $17 million of marketable equity securities. Net unrealized gains of $7 million would now be included in Tier 1 capital and this would certainly be a positive situation at implementation. However, equity markets (equity values) and interest rates (and therefore fixed income security values) fluctuate. Given that the next material movement in interest rates has to be up, the next meaningful impact on capital will be down.

Fluctuating capital does not lead to stability of a bank – neither in terms of managing the balance sheet nor in terms of public perception. For how long now has the public been trained to correlate capital levels with safety of deposit accounts?

AOCI is associated with certain items on the balance sheet. Changes in values of loans and deposits, the two largest sections of a bank's balance sheet, are not included in AOCI. The inclusion of AOCI in capital and the resulting fluctuations of capital will make investments (whose changing value is included in AOCA) a less desirable asset. Certainly it has been a regulatory preference to have investments to provide on-balance sheet liquidity. Discouraging investments securities seems to be an unintended consequence.

In conclusion, leverage by providing credit to individuals and companies is the basis for profitable banking. For mutual community banks, earnings are the only way to grow, or if need be to replace, capital. The Basel III proposal is purported to make a bank stronger and less susceptible to failure. However, the Basel III proposal only decreases a bank's opportunity to profitably leverage capital. I encourage you to make radical changes to the Basel III proposal as it applies to community banks.

Thank you for your consideration.

Sincerely,

Janice C. Morse

Janice C. Morse
President and Chief Executive Officer

CC: Senator Scott Brown
Senator John Kerry
Representative John Tierney