Thomaston Savings Bank
Committed to Community

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 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:

Thomaston Savings Bank welcomes the opportunity to provide comment on the Basel III proposals[1] 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. Thomaston Savings Bank is a mutual savings bank, state chartered, headquartered in Thomaston, Connecticut. Our charter was granted in 1874. Since our humble beginnings, we have expanded our network, services and products to meet the needs of the communities we serve. We currently have 10 branches that serve 8 different towns.

I am highly concerned about the new rules and believe that the Basel III proposals are not appropriate for community banks like Thomaston Savings Bank. We agree that a strong capital base is vital to banking institutions and maintenance of a safe and sound banking system. Our bank presently has over 13% Tier one capital and Total Risk Based Capital of over 24%. And it is our intention to continue to hold capital well above the minimum required levels. However, Basel III proposals will make it much more difficult to monitor and maintain our well-capitalized position. The proposed rules will be difficult to implement due to their complexity. The proposals will add unnecessary volatility to the capital levels. The rules may inadvertently hurt our local community's ability to access credit. And the proposed rules may be unworkable for us as we are a mutual bank and have very limited access to capital. In fact, our only source of additional capital under the new rules will be retained earnings.

These proposed rules were designed to apply to the largest banks and not community banks and especially not mutual savings banks. Our community banking model is much different than the national large bank's model. We are not leveraged with material off balance sheet liabilities. We are very familiar with our local customers and the risks associated with them.

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Regulatory Burden/Rule Complexity:
The complexity of these rules will place a significant cost to the bank and burden on my staff. The regulations comprise over 500 pages of very detailed regulatory guidance. At a minimum, we will need to acquire and/or update systems and software to ensure implementation of the new rules. In addition, we will need to educate the staff about the new rules. And we will need to institute a new audit program to ensure compliance with the rules.

Including Unrealized Gains/Losses on the Security Portfolio in Regulatory Capital:
Another major concern is the inclusion of unrealized gains and losses from the available-for-sale securities portfolio in the common equity Tier one calculation. Currently, we have an investment portfolio with a book value of $170 million and a market value of $179 million. Under the new rules, this "current" unrealized gain would improve our Tier one capital position. However, an increase in market rates would have an unfavorable impact on our investment portfolio's market value and, hence, a reduction in our Tier one ratio. The reduction in market value would be caused by temporary impairment due to market rates versus a credit impairment as our portfolio consists mostly of instruments issued by the U.S. Government, its agencies and government sponsored entities, and municipalities. This Basel III proposal will introduce significant volatility and cyclicality into our capital ratios.

This volatility may force us to limit the growth of our balance sheet as the economy improves simply because market rates begin to rise. These balance sheet actions taken to comply with the new Basel III proposals would serve to undermine the recovery as we reduce lending for the sole purpose of maintaining our regulatory capital ratios. Our small business customers and consumers could be adversely impacted by the reduced availability of credit under this scenario.

We could mitigate this risk but it would require the bank to sell most of our Available-for-Sale portfolio and place all future investment purchases in Held to Maturity. This would reduce the volatility but it would also limit our ability to manage our investment portfolio during volatile economic and interest rate cycles.

Community Banks should be able to continue to exclude Unrealized Gains/Losses on the Security Portfolio from capital measures.

Pension Plan – Inclusion of Accumulated Other Comprehensive Income(AOCI):
The new Basel III proposals will require Thomaston Savings Bank to reduce our capital for the portion of our pension plan's actuarial loss that does not get recognized in the plan's financial statement. Simply stated, this is an "unrecognized net loss". It would adversely impact our capital and add more volatility to our capital ratios. Even though our Plan is well funded, we will be penalized by these new rules along with existing accounting rules for providing our employees and retirees with a pension plan.

The new rule should exempt pension plans from the capital calculations.

New Risk Weights
The new proposed risk weights for loans will penalize community banks and potentially deprive customers of many financing options and increase the cost of credit. Community banks like us have the ability to make loans that may not quite fit the "conforming mortgage loan" definition due to the borrower's unique circumstances. Our experience has been that these types of loans do not experience any greater risk of default than a conforming loan. Nevertheless, the new proposal will require a much higher level of risk weighting thus more capital. This proposal may reduce our ability to offer these types of loans to the "underbanked" individuals who are most in need of these types of loans.

Home equity loans will also be penalized with higher risk weighting under the new proposals. As such, we will have to evaluate our offering of this product. I anticipate we will continue to offer the product but it will probably become more expensive for our borrowers.

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Others areas being impacted by higher risk weightings include the commercial real estate loans and delinquent loans. The risks associated with both of these loan categories are already captured by us in our Allowance for Loan and Lease analysis. The proposed requirements for higher risk weightings would be redundant source of capital allocations.

Community banks should be exempt for the new capital risk weights. We should be allowed to continue to use the current Basel I risk weight framework.

Conclusion:
Imposing these new onerous Basel III proposed rules on Thomaston Savings Bank or any community bank is not reasonable. The current capital standards remain appropriate for community banks so why change them. Now is not the time to impose additional requirements and regulatory burden on community banks. Community banks like Thomaston Savings Bank did not cause the most recent financial mess and we should not be required to comply with these new rules to prevent future irresponsibility by large national banks.

I strongly urge you to consider exempting community banks from these proposed rules.

Thomaston Savings Bank's goals are to preserve our mutual structure and to continue to serve our local community as we have since 1874.

Sincerely,

Stephen L. Lewis
Chief Executive Officer and President