HAMPDEN
BANK
A Brighter Idea.

October 22, 2012

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

Mr. Thomas J. Curry, Comptroller of the Currency
Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Docket ID OCC-2012-0008 and OCC-2012-0009; RIN 1557-AD46

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, NW
Washington, D.C. 20429
RIN 3064-AD95 and RIN 3064-AD96

Re: Basel III Capital Proposal

Dear Ms. Johnson and Messrs. Curry and Feldman:

I am writing on behalf of Hampden Bancorp as its President and COO. Hampden Bancorp has a wholly owned subsidiary: Hampden Bank, which is a $600 million savings bank headquartered in Springfield, MA. Like many institutions that began as a thrift, our loan portfolio of approximately $420 million is composed of almost equal portions of residential and home equity loans versus business loans. As currently written, this proposal covers all banks of any size and would place significant burdens on community institutions like ours. While we are extremely well-capitalized, we are very concerned about the Basel III capital proposal and the effect it would have on us in terms of additional regulations. It would also affect our ability or willingness to continue to offer some products to our customers.

The following are the most troubling issues within the proposal:

- Increasing the Risk Weights for Residential Mortgages

  The proposed increased weighting based on loan-to-value requirements would require us to hold more capital on an asset class which has performed well over the years including during the recession. Ignoring the value of private mortgage insurance in the LTV calculation makes no sense. The use of PMI is a proven and well accepted underwriting practice to reduce risk from high loan-to-values. In the future, if we establish the proposed LTV limits on mortgage and home equity products, it would certainly result in a significant number of unqualified buyers, especially first time home buyers.

  If we are forced to implement Basel III as it relates to the proposed loan-to-value risk ratings, it could make it difficult for Hampden Bank to compete. Additionally, a reduction in loan sales as a result of this regulatory burden will negatively impact interest income, loan fee, and servicing revenues, which we are reliant on in order to meet profitability benchmarks.

- Increasing the Risk Weights on Past Due Loans

  Banks already account for risks associated with delinquent loans within their loan loss reserve calculations. Auditors and regulators regularly review these calculations and would require additional reserves if they found the calculations to be deficient. Requiring a 150% risk weighting on past due loans essentially constitutes a double counting of the risk associated with these assets.

  Community banks try to work with problem borrowers for the benefit of both parties. This requirement would put pressure on the banks to get delinquent borrowers off their books as quickly as possible which will most likely result in more foreclosures and the closures of small businesses.

- Inclusion of AOCI in Calculating Tier 1 Capital

  The bank has about 20% of its balance sheet made up of securities available for sale. These investments provide liquidity to the bank and generate greater than 10% of our interest income. We generally hold these for long-term gains.

  Including the net unrealized gains or losses within our Tier 1 Capital would truly distort the bank's regulatory capital. It may also cause us to shorten the duration of our investments to reduce the potential for these assets to generate significant

> unrealized losses in a rising rate environment. Good yielding assets are hard to come by in this current economic environment, and reducing their duration would only negatively impact our bottom line.

In closing, I urge you to reconsider this proposal. We are a highly regulated industry. Adding more regulations will only lead to the need for more mergers and acquisitions to offset the costs of additional burdens placed on us by this proposal. The proposal would impact all community banks significantly which can only cause more harm to the economy and the markets we serve.

Sincerely,

Glenn S. Welch
President and COO