Marlborough
SAVINGS BANK

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October 22, 2012

The Honorable Ben S. Bernanke,
Chairman
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E. Street, SW
Washington, DC 20219

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry, and Acting Chairman Gruenberg:

My name is Joseph J. Normant Jr. and I am Chief Financial Officer of the Marlborough Savings Bank, a mutually owned community bank located in Marlborough, Massachusetts, with total assets of $450 million. Our primary business is lending to our community, utilizing funds deposited from customers living in Marlborough and contiguous towns. In fact, lending accounts for 58% of our balance sheet, with 50% of our loan portfolio in 1-4 family residential loans. An additional 30% of our investment portfolio consists of government sponsored mortgage backed securities – all of which are available for sale. Our emphasis has always been on lending first, while relying on the investment portfolio for liquidity and a temporary haven for deposits awaiting reinvestment into our community.

I write to convey my concerns and the concerns of my fellow officers, my board members, and my fellow community bankers with the proposed Basel III capital requirements, particularly with respect to the negative impact that such regulations would have on our individual bank and the entire community banking industry.

Marlborough Savings Bank, (as well as many other community banks in Massachusetts) has operated in a safe and sound manner since 1860. We continued to serve our communities; to provide a safe haven for individual wealth accumulation; to provide home financing for the average American; and to assist Main Street merchants and small business entrepreneurs in achieving their dreams – through depressions, recessions, and in times of prosperity.

As a small community bank, we offer many of the same products and services that the large "too big to fail" institutions offer. We provide a myriad of savings, investments, and lending products. Our goal is to succeed, to thrive and to survive. This is where the similarities with the big banks stop. As a mutually owned institution, we have a commitment to our depositors to uphold the legacy that has been passed down for generations to provide prudent and sound banking to everyone in our community. As such, we have never been involved in the kinds of "high financing schemes" that brought on this current financial catastrophe. We have not prayed upon the weak nor have we misled our customers into unnecessary financial entanglements. We have provided several dozen re-finance plans over the past several years to enable as many families to stay in their homes after facing traumatic, and at times, catastrophic financial setbacks.

We are concerned that the proposed Basel III rules will negatively impact our ability to serve our community.

Community banks such as ours have little or no access to capital markets. In order to survive we need to grow. In order to grow, we need additional capital (even with current capital requirements). Our primary source of capital growth is through organic, retained earnings. Proposed capital calculation requirements (particularly risk weighting) will adversely effect our capital position in a number of ways:

- Mortgage lending is the primary focus of our business as a community bank. The proposed rule relying on outdated loan to value ratios, rather than current performance will increase the capital cost for a portfolio lender such as us. The proposed changes would impact our ability to serve first time homebuyers and low to moderate income borrowers in our communities.
- While we have always maintained a high standard of underwriting (as evidenced in our extremely low historic loss ratio), we have always complied with all of the underwriting standards needed to sell loans into the GSE secondary market. However, we always look to retain the servicing of such loans, and in many instances we hold these loans for a short period of time before sale. In some instances, we have chosen to hold these loans for a longer period of time. Risk weighting these loans held on our books under the proposed calculations may hamper future lending to 'less than perfect' credits.
- Surplus funds (those not channeled into mortgage lending) are invested in a number of legally accepted investments such as government bonds, corporate bonds, mortgage backed instruments, mutual funds and equities. Currently, market valuations are reflected on our books on a monthly basis through adjustments to comprehensive income in the Capital account. For Capital calculations, the FDIC does not require the comprehensive income adjustment – except in the instance of our equities portfolio. Proposed rules would force the recognition of market swings and would create potentially extreme volatility in our bank's Capital.
- Our equities portfolio consists of blue chip and well known publicly traded stocks. We rely on dividends from these stocks to enhance our income and Capital. Proposed risk weighting (well in excess of 100%) of this type of investment would force us to liquidate this beneficial income source.

- The Proposal also requires banks to include their minimum pension liability adjustment for GAAP purposes in regulatory capital. The minimum pension liability adjustment in equity can be extremely volatile, since it depends on a number of assumptions and actuarial calculations. Like many community banks, we have pension plans that require this equity adjustment for accounting purposes, however these adjustments are non-cash temporary items that can go from a loss to a gain within a year. We currently have a significant loss position due to the interest rate environment. It would be unreasonable to Marlborough Savings Bank and many other community banks to shrink their balance sheets to meet minimum capital ratios because of this temporary adjustment – by the time the balance sheet restructuring was put in place, the unrealized loss could turn that quickly into a gain.

These are just a few of the instances in which this proposed regulations would have a negative and detrimental effect on Marlborough Savings Bank and community banking as a whole. We are concerned that the proposed standards are flawed in many ways when it comes to mutually owned, community banks.

We look to you for your leadership and help in the survival of community banking in this country. We ask you to act on our behalf, and on behalf of the hard working members of our community, to reconsider the devastating effect of this proposed Basel III regulation, and to postpone enactment of this regulation until further studies and assessments can be made. I thank you for your consideration.

Sincerely,

Joseph J. Normant Jr.
SVP and Chief Financial Officer