MERRIMACK COUNTY
SINCE 1867
SAVINGS BANK



October 12, 2012

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

Robert E. Feldman, Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Re: Basel III & Standardized Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments 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. While we share your desire to ensure that the problems that led to the 2008 financial crisis do not reoccur, we believe that these new proposals are too punitive and should not be applied to community banks of all types but in particular mutual holding companies and banks such as ours-- Merrimack Bancorp MHC and Merrimack County Savings Bank (MCSB).

Mutual savings banks and Mutual holding companies have been an integral part of communities across the U.S. and particularly the Northeastern U.S. for decades. MCSB has been a mainstay in the communities it serves in central New Hampshire for over 145 years. Banks like ours provide funding for consumer, residential and small businesses loans. Our communities need us to continue to thrive and provide the credit necessary for businesses to grow and create new jobs which in turn generates confidence in the economy. All of these things need to occur not just now to help restore prosperity in America again but to maintain a strong financial system in the future. Since 1867, we have been a part of that process as a strong cornerstone of the community—if we grow, the community grows—but it also works in reverse!

Community and mutual savings banks are already on a different playing field than stock commercial banks. We do not have access to the capital markets. The Trust Preferred Securities (TPS) market has dried up due to losses and unrestrained Denovo bank creation and expansion, but the market will erturn as the economy strengthens. However, BASEL III rules will dismantle this capital vehicle even for those of us that used the vehicle with caution and respect. We did supplement our capital under the rules in place in 2007 by issuing $5.155 million of TPS and used that capital to assist in an acquisition of a small troubled stock community bank in our market. The acquisition was successful. Now, under the Basel III rules the only way for community and mutual savings banks to increase capital will be through

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earnings. Due to the current economic realities, in particular the low interest rate environment, it could take years to replace the capital that will be senselessly destroyed under the proposed rules. Furthermore, these rules will create an unnecessary constriction of credit across America. We do not believe you intended either of these outcomes. We are not complex organizations; our capital rules should match our complexity.

MCSB has continually been a well capitalized bank with an experienced, conservative management team and our regulatory examination reports prove it time and again. Our earnings are strong and growth has been organic and measured. Our loan underwriting has been prudent and our non-performing loans are minimal as are those of most of our peer banks. Loan loss reserves are adequate as evidenced by low charge off history. We do not believe increases to loan risk weights are necessary based on our historical performance.

We are also concerned that adding the unrealized gains or losses of available-for-sale debt and equity securities to regulatory capital will create unnecessary volatility and require regulators, analysts and investors to create shadow calculations to remove them from capital ratios to determine the true picture of the banks' capital. Again, we do not believe you intended to create more volatility or hinder the evaluation of the banks you regulate.

Furthermore, it seems inconsistent to include in capital calculations the unrealized gain or loss of debt and equity securities currently recorded in Accumulated Other Comprehensive Income (AOCI) but not include the respective unrealized gains or losses associated with cash flow hedges of balance sheet items. These hedges are simple interest rate risk hedges of assets and liabilities that are subject to changes in valuation similar to investment securities. Therefore it seems the unrealized gains and losses of both debt securities and cash flow derivatives should be included in the capital calculations or leave both of them out. We believe leaving them both out of capital calculations would be the most prudent to avoid unnecessary volatility.

The following table shows an estimate of the impacts due to the proposed BASEL III & Standardized capital rules (dollars in millions).

| Capital estimated based on data as of 06/30/2012 | **Current** Capital Ratios and Amounts | **Basel III** Capital Ratios and Amounts | **Changes due to BASEL III** | Basel III & Standardized | **Total changes due to BASEL III & Standardized** |
|---|---|---|---|---|---|
| Leverage Ratio | 8.83% | 7.53% | **(1.30%)** | 7.53% | **(1.30%)** |
| Common Equity Tier 1 Ratio | N/A | 11.68% | **N/A** | 11.03% | **N/A** |
| Tier 1 Capital Ratio | 13.61% | 11.68% | **(1.93%)** | 11.03% | **(2.58%)** |
| Total Capital Ratio | 14.90% | 14.18% | **(0.72%)** | 13.40% | **(1.50%)** |
| | | | | | |
| Capital Amounts | | | | | |
| Common Equity Tier 1 | N/A | $48.4 | **N/A** | $48.4 | **N/A** |
| Tier 1 Capital | $56.8 | $48.4 | **($8.4)** | $48.4 | **($8.4)** |
| Total Capital | $62.2 | $58.8 | **($3.4)** | $58.8 | **($3.4)** |
| Risk Weighted Assets | $417.6 | $414.8 | **($2.8)** | $439.1 | **$21.5** |
| Average Assets | $643.3 | $643.1 | **($0.2)** | | |

The table above shows that MCSB stands to lose $8.4 million in Tier 1 and $3.4 million in Total Capital value if the BASEL III and Standardized rules are implemented. This is without the consideration of the "Capital Conservation Buffer" beginning in 2016.

If our available-for-sale (AFS) investment securities portfolio is added to the capital calculations as proposed by BASEL III and we assume interest rates increase 300 basis points, MCSB will lose another estimated $6 to $7 million in capital.

Community banking business models are not complex and based on our performance and that of many other peer banks similar to ours, we see no reason to impose the new BASEL III rules on community banks. We believe operating under the BASEL I rules has worked well as evidenced in our performance and regulatory exam scores.

Therefore, we ask that you reconsider the BASEL III capital proposals and their impacts on community banks. We are the banks that Main Street operates with! Tighten the Wall Street requirements, seriously restrict Denovo bank business plans and require credit unions to have the same capital rules as we are required to operate under. That is what is really needed from a common sense standpoint.

Sincerely,

Paul C Rizzi

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President and CEO
Merrimack Bancorp MHC
Merrimack County Savings Bank

Philip B. Emma, 183

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