



Thomas J. Villanova  
President & CEO

October 17, 2012

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429  
Delivered via email: [comments@FDIC.gov](mailto:comments@FDIC.gov)

Office of the Comptroller of the Currency  
250 E Street, S.W.  
Mail Stop, S.W.  
Washington, D.C. 20219  
Delivered via email: [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
Delivered via email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency.

Litchfield Bancorp is a \$210 million state chartered mutual bank established in 1850 and located in Litchfield, CT. That bank is owned by Connecticut Mutual Holding Company, a three bank holding company which also owns Northwest Community Bank, a \$330 million mutual located in Winsted, CT; and Collinsville Savings Society, a \$145 million mutual located in Canton, CT. Between our three banks, we currently operate 14 branches throughout Litchfield and Harford counties. As of June 30, 2012, Litchfield Bancorp had Tier 1 Leverage Capital of 8.12%, Tier 1 Risk Based Capital of 15.11%, and Total Risk Based Capital of 16.01%. Connecticut Mutual

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Lakeville  
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Tel: 860.435.9828  
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Torrington  
1320 East Main Street  
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Tel: 860.482.9707  
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Oakville  
423 Main Street  
Oakville, CT 06779  
Tel: 860.274.7467  
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Holding Company had Tier 1 Leverage Capital of 9.5%, Tier 1 Risk Based Capital of 16.97%, and Total Risk Based Capital of 19.18%.

As a community bank our primary mission is to serve our local market through accepting deposits and lending money for residential and small business loans. We have been committed to our community for 162 years and without us, our community would suffer. We currently maintain our capital levels above the current regulatory minimums and strive for strong marks on all regulatory exams. While we believe that stronger capital standards are necessary for large domestic banks and foreign banks; they are not appropriate for community banks. We know our customers and have established a conservative risk profile. As a mutual bank our only source of capital augmentation is through retained earnings or shrinking our balance sheet. With the onerous Basel III capital standards, as a mutual bank we would be forced to shrink our balance sheet and not lend to our community. Our customers will suffer and we will not be able to continue to contribute to an economic recovery.

A major concern is the inclusion of gains and losses on available-for-sale securities in the common equity Tier 1 calculation. We have a very conservative investment philosophy and suffered no losses on the FNMA/FHLMC preferred stock. Litchfield Bancorp has a \$29 million available-for-sale investment portfolio and in the current low rate environment has \$920,000 in unrealized gains. This portfolio could quickly go under water in a rising rate environment and have a dramatic impact on our capital levels under Basel III. We have the capability to hold these assets until maturity and should not have to mark the gains and losses and create these large swings in capital as interest rates change through normal business cycles.

Another concern is the changes to the residential lending risk weighting. Residential mortgages comprise 80% of our loan portfolio and we are active in the first time home buyer market and home equity loans. The proposed elimination of mortgage insurance in the calculation of the loan-to-value ratio will increase the cost of mortgages for first time home buyers. The proposed risk rates of up to 200% for home equity loans will further restrict our capital and our ability to lend in our community.

The current call report data is not refined enough for the regulators to determine the specific impact this regulation will have on community banks. How can such a burdensome regulation be passed without an adequate study on the impact to community banks? Again, while we agree that the Basel III proposals are needed for very large banks, imposing these onerous requirements on community banks is not reasonable. For these reasons, I strongly urge you to consider this impact and to consider an exemption for community banks to these rules.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Villanova', written in a cursive style.

Thomas J. Villanova  
President & CEO  
Litchfield Bancorp

Cc: Senator Joseph Lieberman  
Senator Richard Blumenthal