October 22, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
comments@fdic.gov
RIN 3064-AD95 and RIN 3064-AD96

Ms. Jennifer J. Johnson
Secretary
Board of Governors of Federal Reserve System
20th St & Constitution Ave, N.W.
Washington D.C. 20551
regs.comments@federalreserve.gov
Docket R-1430 and R-1442; RIN No. 7100-AD 87

Re: Basel III Capital Proposals

Dear Sirs and Madam:

On behalf of the Greenfield Co-operative Bank ("GCB") , I wish to submit these comments on the so-called "Basel III" proposals entitled 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. It is my understanding that these proposals were recently approved by the FDIC, the Federal Reserve Board, and the OCC (collectively the "banking regulators").

In way of background, you should know that GCB is a small community bank located in Western Massachusetts. We are a state chartered mutual banking organization founded in 1905, with five offices, 57 staff and $312 million in assets. We engage primarily in residential and consumer lending, as well having as a smaller portfolio ($60 million) in commercial C&I and commercial real estate loans. We are state non-member bank that is regulated by the Federal Deposit Insurance Corporation and the Massachusetts Division of Banks. As of September 30, 2012, GCB's Tier 1 leverage capital ratio was 11.39%, our Tier 1 risk based capital is 20.03% and our Total risk based capital is 21.05% and we are rated as "well capitalized" under current capital regulations. And while we certainly did feel the stress of the recent economic downturn, our conservative underwriting and business model allowed us to remain profitable, albeit less than in prior years, throughout this period. .

Observation & Comments

GCB feels the Basel III proposals are needlessly complex and, if adopted, will have a wide range of negative implications not only our bank, but all community banks like us. In addition to their length and complexity, they present several major operational and compliance challenges to any community bank, including GCB. This will also definitely impact our future dealings with consumers and small businesses because of the very narrow definitions of what is reasonable risk in residential lending and commercial lending. The burdensome risk ratings proposed have no real logic that we can see in terms of the actual risk certain types of lending (such as traditional mortgage lending and home equity lending) really pose to a community bank. The FDIC and state banking regulators already have broad authority to impose bank-specific capital requirements on depository institutions through the existing prompt corrective action process and have far greater knowledge of local and regional economic conditions on which to base their regulatory decisions.

For example, my bank has been involved in home equity lending since the 1980's with historical losses of less than one half of one percent. Much of this is attributable to conservative underwriting. We have always underwritten all of the home equity loans not simply with credit score, but looking at the entire credit history and verifying income. Since these type loans were issued as adjustable rate loans, we underwrite using a loan rate that is two percent higher than the rate at origination to provide an immediate stress test of the borrower. Clearly, no one-size fits all capital model would take this type of underwriting into account. Instead, GCB would have to consider pulling back from this market because of the proposed 200% risk weighting. I would urge the regulators to place more emphasis on traditional principles and qualitative measures of risk as monitored by experienced bank regulators instead of a one-size-fits-all model that applies to the mega money center banks and European banks and punishes local community banks like ours that have conservative balance sheets that pose little if any risk to the global economy.

While improving overall capital levels is a worthwhile goal, why not simply increase the capital levels currently imposed on community banks using the same mechanism and formula that has worked well for community banks and the regulators for the past quarter century. If an institution chooses to use complex derivatives or engage in substantial off-balance sheet transactions, then you can ask for these new requirements. Otherwise, most community banks remain traditional residential and commercial lenders regulated by both state and federal regulatory agencies and should be able to continue with slightly higher levels of capital using existing method of calculations.

If you look over the recent economic downturn, community banks in New England and Massachusetts in general have survived far better than many other regions. Our delinquency rates are significantly lower than the national average. There has been only one bank failure in all of New England since 1993. Part of this is probably due to the fact that many CEO's came into this business in the early 1980's, lived through that boom and the bust of 1991-1992, and remembered that lesson in the boom of the early 2000's. Our conservative lending has met the needs of our community, and ensured we will be here for the coming years for the local businesses and homebuyer's who need credit. In fact, GCB, along with most Massachusetts community banks actually increased our lending capacity to offset the pullback by many of the large national institutions and failure of non-bank lenders during the recession. Unfortunately, it also has seemed that there is urgency at the regulatory agencies to finalize and implement the proposals without fully studying the potential impact they will have on the community banking industry. In yet another example of how this will impact my bank, while the proposals have been available since July, an estimation tool was only made available a couple of weeks ago and we have had to scramble to try to determine the actual impact on our bank. As a community banker and lawyer, I would urge you as regulators to delay the proposals and take the time to do a proper study.

Finally, if despite this and other letters from community banks, you do decide to move forward, I would respectfully ask the regulators to provide a safe harbor and exemption for community banks that do not engage in activities beyond traditional (i.e. pre-Glass Steagall repeal) banking, namely residential mortgages, C&I lending and commercial real estate lending. In the interest of the reader, I have included some of my more specific comments as an Exhibit A attached to this letter. I thank you for considering this letter and the attached comments in your final deliberations. If you or any of your staff have any questions about anything I've provided in this comment letter, please feel free to contact me at (413) 772-0293, x124. Thank you.

Very truly yours,

Michael E. Tucker, Esq.
President & CEO

<u>Exhibit A- Specific Comments</u>
<u>Basel III: Risk Based and Leveraged Capital Requirements</u>

- **Increases in Regulatory Capital**

Greenfield Co-operative Bank supports having robust capital levels in our banking system. We know that regulatory expectations for minimum capital levels have changed in the wake of the recent financial crisis. Our capital levels are quite robust (as of 9/30/2012) our Tier 1 leverage capital ratio was 11.39%, our Tier 1 risk based capital is 20.03% and our Total risk based capital is 21.05% and GCB is "well capitalized" under FDIC's current capital regulations. Despite this, as a mutual we have limited means to raise additional capital without giving up our mutual charter, and we respectfully ask the FDIC and Federal Reserve to conduct additional analysis before raising capital levels throughout the industry. In particular, the complexity of the proposed risk-weighting rules, which will definitely have a significant impact on my bank, and as such I believe it would also prevent the regulators from obtaining accurate data on the industry through the current call reports. A more thorough data collection project should be undertaken in this area if policymakers are to truly understand the affect the proposed risk-weighting rules will have on the industry and the overall economy.

- **Capital Conservation Buffer**

At Greenfield Co-operative Bank, we don't see the need for the proposed "capital conservation buffer" along with the restrictions on executive compensation. The FDIC and Federal Reserve already have existing regulations that adequately addresses these concerns in a more appropriate fashion. All of the regulatory agencies already have the substantial authority to impose restrictions compensation at any bank facing financial difficulties. GCB believes that it is appropriate to leave decisions regarding restrictions on the payment of executive compensation and capital distributions to the discretion of the regulatory authorities on a case-by-case basis as opposed to by a one-size-fits-all formula.

- **Inclusion of AOCI in Calculating Tier 1 Capital**

The proposed rule mandates that banks include Accumulated Other Comprehensive Income (AOCI) in calculating Tier 1 capital. The primary driver of AOCI (or loss) for most institutions is unrealized gains and losses in the available-for-sale securities portfolio. The inclusion of unrealized gains and losses on these securities in determining Tier 1 capital has the potential to substantially increase the volatility of Tier 1 capital and artificially distort the bank's regulatory capital ratios, particularly during periods of rising and falling interest rates.

Community banks like mine generally hold three types of investments besides Fed Funds. These include Treasury bonds/bills, various Agency (i.e. FHLB, FNMA, FHLMC) bonds and agency Mortgage backed securities. We typically hold these until maturity and are not "traders" in any sense of the word. We hold these interest rate sensitive securities for sound business purposes, and yet would see changes to our capital ratios based solely on interest rate changes rather than changes from credit quality. In Massachusetts and New England, many of our traditional, state-chartered bank members have investment powers that have existed in some cases as far back as the 1800s. We have exercised these powers under well-established state and federal guidelines and community banks like mine have used our investment powers prudently over many years. No one has suggested that these limited investment powers contributed to the recent financial crisis. On the contrary, we strongly believe that the portfolio gains and dividend income derived from these investments provide a dependable source of capital for balance sheet restructuring, increased loan loss reserves and community investment activities. These bonds and MBS's, while in our available for sale portfolio, are generally held for long term returns, not short-term profits, and have always provided a source of strength and stability that has enabled our bank to weather uncertain economic conditions.

If the regulators continue to keep this provision in the proposal, it would impact our bond portfolio, potentially forcing GCB to avoid market changes by shortening the maturity of the portfolio, resulting in lower yields and earnings and reclassifying bonds from "available for sale" to "held to maturity", lessening the ability of an institution to effectively manage their bond portfolio.

While larger institutions may hedge the impact of interest rate changes on AOCI, community banks like mine are unable to do so and in a rising interest rate environment, including unrealized gains and losses in determining capital would negatively impact the ability of my bank to contribute to economic recovery. The final rule should allow institutions to continue to exclude AOCI from capital measures as they are currently required to do today.

- **Limitation on Inclusion of Allowance for Loan and Lease Losses in Regulatory Capital**

There are various provisions in your proposals that would force our bank to "double-count" risk elements on bank balance sheets. For example we currently provide specific valuation reserves in our Allowance For Loan and Lease Losses (ALLL) as required by various FASB guidelines. If the new Basel III provisions are adopted, GCB strongly believes the final rule should also eliminate the current arbitrary regulatory limitation on the amount of an institution's ALLL that is includable in its capital, which is currently set at the amount equal to 1.25% of total risk-weighted assets. GCB has traditionally built reserves during good economic times, and community banks like ours should be encouraged to do this. Removing this restriction would encourage banks to properly fund their ALLL.

- **Small Savings and Loan Holding Companies**

Under the Federal Reserve's Small Bank Holding Company Policy Statement, it is my understanding that the Basel III Proposal generally would not apply to bank holding companies with total consolidated assets of less than $500 million. I am pleased to read that, but in looking at our industry as a whole, I would ask the regulators to consider the following issues prior to the adoption of any final rule.

First, because the proposed Policy Statement does not cover small savings and loan holding companies (SLHC), there is no similar exemption for SLHCs with less than $500 million of total consolidated assets. Smaller savings and loan holding companies face the same challenges that smaller bank holding companies like mines does with respect to raising capital. They generally do not have access to public equity markets and therefore need to rely on alternative sources of capital, such as debt. Second, because these companies have not previously been subject to consolidated capital requirements, many of them do not presently have capital structures that would allow them to comply with the requirements of the Proposal. Therefore, if the agencies decide not to exempt smaller institutions entirely from the Basel III regulations, I would urge you to also exempt SLHCs with less than $500 million in total consolidated assets.

In addition, if the agencies do not adopt a broader exemption for community banks, I would ask the regulators to consider increasing the asset threshold for small bank and savings and loan holding companies from $500 million to at least $10 billion. Given the realities of the community banking marketplace, I think this more accurately reflects the current industry profile and would provide additional relief for many smaller holding companies.

Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements

- **Substantial Increase in the Risk Weighted Asset Amount for Residential Mortgages**

The regulators are proposing new methodologies for risk weighting mortgages that are heavily dependent on data and will likely result in a substantial increase in risk weights – in some cases up to 200 percent. These new risk-weight formulas apply to both new mortgages as well as existing loans that are currently in banks' portfolios that were underwritten to comply with existing capital standards. Since community banks like mine specialize in residential lending, I believe the proposed risk weights will have a disproportionate impact on residential lenders like Greenfield Co-operative Bank. .

The proposed rules also rely heavily on loan-to-value (LTV) measures and appraisals in determining the risk-weighting for residential mortgage exposures. Under the proposal, only the highest quality mortgage loans with low loan-to-value ratios and strongest credit characteristics will qualify for the lowest risk weighting (Category I). Many other well-underwritten loans will now be subject to sometimes substantially higher risk-weightings, with loans in Category 2 with LTVs higher than 90 percent subject to a 200 percent risk-weighting – double the risk-weight for unsecured consumer loans.

It is unclear how the regulators can propose that any category of residential mortgage loan, which are secured by real property, could present twice as much risk to a bank than an unsecured consumer loan. I respectfully would pose that the bank's with residential loans rarely if ever, suffer losses in excess of the amount of any mortgage loans and that the highest risk-weighting that should be applied to a residential mortgage exposure is 100%.

The proposal significantly increases capital costs for portfolio lenders, and disadvantages insured banks compared to non-bank mortgage lenders and credit unions that are not subject to these requirements. In particular, we believe these new capital requirements will have a chilling effect on the availability of credit to first-time homebuyers and low-and moderate-income borrowers with less than perfect credit histories. Banks like mine that provide prudent but flexible guidelines for first time homebuyers and portfolios these type loans that did not fit the secondary market guidelines will be forced to curtail this type of lending in the future or increase the costs of providing credit to these borrowers. One unintended consequence of the Basel III proposals is that it will enable the same unregulated and lightly-regulated entities that were a major cause of the mortgage crisis to re-enter the market and attract borrowers who may not be able to obtain a mortgage from a well-regulated local bank.

For example, for well underwritten, fully documented first mortgages, with no balloon payments, no negative amortization, and with prescribed interest rate caps if the loan is an ARM, the capital risk weight will increase from 50% to 75% if the LTV ratio is above 80% and the risk weight will increase to 100% if the LTV is above 90%. Therefore the current capital charge will double on a loan made to a first time home buyer who puts 5% down in cash and has mortgage insurance to cover the rest of the loan, since under the Proposal, mortgage insurance will no longer be considered when determining the loan-to-value ratio. This will also adversely affect minorities and other disadvantaged consumers who have difficulty making large down payments, particularly in a high-cost state such as Massachusetts.

With the ongoing rulemakings regarding the definition of Qualified Mortgage (QM) and Qualified Residential Mortgage (QRM), I would urge the agencies to wait to finalize these provisions of the rule until final QM and QRM rules are issued. In addition, the Consumer Financial Protection Bureau (CFPB) has a number of open rulemaking proceedings that will have a significant impact on the mortgage process. Further study and coordination of rulemaking activities in this area is essential to ensuring that my bank is not faced with conflicting requirements from the consumer protection and safety and soundness regulations.

Finally, I would urge the regulators to grandfather all existing mortgage exposures by assigning them risk weights as required under the current general risk-based capital requirements. Grandfathering such mortgages is appropriate, since aggregating and analyzing the data to calculate the risk weights will be extremely burdensome, particularly for existing loans or in cases where the institution merged or purchased another bank.

- **Risk-Weighting of Past Due Exposures**

Greenfield Co-operative Bank is also concerned regarding the risk-weighting of past due exposures in the Standardized Approach Proposal ignores the existing processes by which banks like ours must already account for past due exposures. It duplicates efforts already required by the various regulatory requirements about allowance for loan and lease losses (ALLL). The Proposal requires banking organizations to apply a 150% risk-weighting to assets that are 90 days or more past due or on nonaccrual status to the extent that those assets are not secured or guaranteed. As you as a regulator are aware, delinquent loans must already be accounted for in our bank's ALLL analysis. We are already very tightly regulated in this area. During examinations, the regulators have been aggressive in criticizing us if we do not adequately recognize the need for additional capital to mitigate potential losses. Similarly, we are criticized by the accounting industry if we maintain what they consider too much reserves in our ALLL. Finally, during this most recent economic downturn, Greenfield Co-operative Bank, like all banks, received significant regulatory and legislative pressure to ensure we worked with delinquent borrowers and modify loans, particularly residential loans. Unfortunately, the Proposal would serve to discourage our bank from keeping delinquent assets on our balance sheets, therefore reducing the possibility that a successful modification can be achieved. Given that accounting framework, I believe that adding to the risk-weighting of past due assets constitutes unnecessary double-counting of the risk of the assets, and this proposal should be eliminated from the final rule.

<u>Conclusion</u>

As I stated elsewhere in my comments, Greenfield Co-operative Bank believes that the Proposals have a variety of fundamental problems and that they should be withdrawn. The Proposals require substantial modification, and I believe additional studies are required in order to develop the most appropriate modifications to the capital framework.

Iif finalized in their current form, the Proposals will result in our bank having to seriously consider withdrawing or curtailing a number of residential lending programs as well as extending credit for small business borrowers. This is not something we take lightly, as it will cause us a loss of income and diversity in our assets that actually adds risk. I sincerely hope you will reconsider the Basel III proposals, because it will add substantial compliance costs and ultimately hurt Greenfield Co-operative Bank and other small banks throughout the United States.