BANK OF WESTON

October 9, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Dear Mr. Feldman:

I would like to thank you for the opportunity to comment on the proposed capital rules. These rules have implications throughout the banking industry, but are especially onerous for community banks like Bank of Weston. While the overall complexity and more stringent capital standards are problematic, the following specific issues are of particular concern:

- AOCI included in Common Equity Tier 1 Capital – Community banks have been asked to hold more on balance sheet liquidity, generally in the form of high quality AFS securities. Under the proposed rules, banks that have complied with the liquidity demands will be punished by adding significant volatility to the core capital measures. For example, our AFS portfolio represents 100% of securities portfolio, and provides substantial liquidity and flexibility in managing overall interest rate risk. Using a 300 basis point rate shock, the value of the portfolio would fall significantly. This is an unacceptable level of volatility, and will result in the bank shifting assets to HTM classifications. In addition, any economic recovery accompanied by rising rates is likely to be muted by banks restricting lending and risk as their capital is negatively impacted by their AFS portfolios. Any benefits from Basel II are outweighed by the negative effects of these actions.

- Mortgage Lending Changes – Community banks have historically depended on 1-4 family residential real estate lending as a core component of their business. In addition, community bank mortgage portfolios performed well through the financial crisis, and were generally not a source of substantial losses. Increased weightings will result in significant changes to the bank's risk based capital ratios. The proposed capital requirements will encourage banks to look at higher risk commercial loans to offset the increased capital requirements, thus adding to portfolio risk.

- Cumbersome Measurement and Reporting – The level of detail required in order to calculate the proposed capital measures is far beyond the systems in most community banks. For example, , all of our residential real estate loans will have to be classified as Category 1 or 2 and stratified by LTV. None of this information is currently in our systems, and getting up to standard will require a massive project of manual entry. This is an extremely cumbersome drain on time, attention, and resources at a time when banks are already facing increased regulations and declining margins related to record low interest rates. I do not believe that the new stratifications are indicative of the actual risk. The new requirements will create much more complexity without adequate benefit.

The events of the last several years certainly give credence to the need for improved capital standards. However, the cumbersome and onerous standards of Basel III were designed for large, complex, and international banks. Applying these same standards to community banks like Bank of Weston will have wide ranging (and largely unknown consequences). We understand the need for higher levels of core capital, and are willing to comply with such standards, but believe smaller banks can get there without the Basel III standards that are generally not appropriate nor applicable. The proposed regulations have ignored the intent of the enabling legislation to not significantly affect smaller institutions.

The risk to the financial system from smaller institutions like ours is minimal. Basel III is one more issue that will force the consolidation of such institutions into larger ones thus increasing the overall risk to the banking system. Basel III, as proposed, is in my opinion counter-productive and will actually create more risk than it reduces.

Sincerely,

Ted S. Wilson
Chairman/CEO
Bank of Weston