



THE CO-OPERATIVE CENTRAL BANK

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WILLIAM F. CASEY, JR.
President

January 16, 2007

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

Re: RIN 3064 – AC 96

Dear Secretary Feldman:

The Co-operative Central Bank is the Central Bank and excess deposit insurer for the 69 Massachusetts Co-operative Banks. The majority of our banks are small community banks and 60-70% of their total assets are in residential one-to-four family real estate loans.

I would like to commend and thank the collective agencies for the care and thoughtfulness that you have put into the current proposed revisions to the risk based capital guidelines. The options to elect to adopt Basel 1A and the clarity and simplification now provided on the use of loan to value ratios for one-to-four family first liens will certainly enhance risk sensitivity without unduly increasing the regulatory burden for our member banks.

I also appreciate the opportunity to comment on the notice of proposed rule making on changes to the risk based capital guidelines included in RIN 3064 – AC 96. My comments are limited to selected questions that have been raised in the proposed notice, as follows:

Question 2 - The Opt in Proposal

The ability of the agencies to require a banking organization to apply Basel 1A capital rules for any reason would defeat the optional use intent. I feel that it would, therefore, not be appropriate for agencies to require any bank under \$10 billion in assets to apply Basel 1A capital rules. For banks, with total assets in excess of \$10 billion, it might be appropriate only if overall CAMEL ratings were four or more and/or the capital is at an unsatisfactory level or the capital component rating alone is four or more and capital is at high risk of being unsatisfactory.

Question 3 – The number of Risk Weight Categories

The proposed addition of risk weight categories (35, 75 and 150) is both appropriate and sufficient.

Question 5 – Government Sponsored Agencies (GSE's)

The non-sovereign risk weights included in Table 1 (long) and Table 2 (short) appear appropriate for determining risk weights for all GSE's, including mortgage backed securities, collateral and/or guarantees. These tables include risk rates for unrated securities which appear to be sufficient for any GSE that lacks a financial strength rating.

Question 7 – Risk Weights for one-to-four family residential first liens

The proposed LTV and risk weights for one-to-four family first liens as included in Table 3 are excellent. I would, however, recommend that it be modified as follows: (1) that the 15% graduation in the first three categories be continued in the next three categories, so that the top risk weight is capped at 95% or 100%, given the safety experience with one-to-four first liens. The 85-90 LTV ratio category would then be risk weighted at 65%, the 90-95 LTV ratio category at 80% and the greater than 95 LTV ratio category be risk weighted at 95% or 100%; (2) and that any one-to-four family first liens with private mortgage insurance (PMI), with LTV ratios greater than 80% be risk weighted at 50%, to the extent that such PMI is provided by any independent carrier, unaffiliated with the bank and that such PMI fully covers the LTV in excess of 80%.

Question 9 – Possible Addition of Borrower Creditworthiness to LTV Ratios

The safety in one-to-four family first liens, together with the loss history that the FDIC has experienced would suggest that for owner occupied one-to-four family first liens that LTV ratio only is sufficient to determine risk weight. The borrower's creditworthiness, if added, would make the risk measurement more cumbersome without material change or benefit. I strongly recommend that creditworthiness not be added, or if added, applied to non-owner occupied or investor one-to-four family first liens only, where credit risk may be a greater factor. I would recommend that Table 3 (see question 7 response for recommended modification) only be used for one-to-four family first lien risk weighting and that Table 3A be removed or held for future consideration, if necessary, after sufficient time and experience under Table 3 may be evaluated.

Question 10 – Other circumstances under which LTV should be adjusted

See comments in Question 7 where I recommend that one-to-four family first liens with private mortgage insurance (PMI) with LTV ratios greater than 80% be risk weighted at 50% to the extent that such PMI is provided by an independent insurance carrier, unaffiliated with the bank and that such PMI fully covers the LTV in excess of 80%.

Thank you again for the opportunity to comment on the proposed rule. If you have any question or need to discuss my comments, please contact me on (617) 695-0400 or via e-mail at wcasey@coopcentralbank.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read "William F. Casey, Jr.", with a long, sweeping flourish extending to the right.

William F. Casey, Jr.
President

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