Norway Savings Bank
COLORFUL SOLUTIONS™

October 22, 2012

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

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

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. I am writing to you today to express concern about the implication of these proposals on Norway Savings Bank.

Norway Savings Bank is a 146 year old mutual savings bank headquartered in Norway, Maine. We are a $970 million bank serving the western and southern areas of Maine. We are active residential and home equity lenders with a combined portfolio of over $425 million. We are also engaged in commercial lending including both real estate (owner occupied and investor) and commercial and industrial. Our commercial lenders service a portfolio of approximately $315 million comprised of over 1000 small businesses and real estate developers. In addition to being one of the larger lenders in the state of Maine, Norway Savings Bank is also active in the Trust business currently managing over $130 million in assets. Like many banks, our assets also include various investments such as mortgage backed securities, corporate bonds, and an equity portfolio totaling over $33 million.

For several months, we have reviewed and educated ourselves about Basel III. The bullets below represent our most serious concerns regarding the implementation of the Basel III proposal.

- Unrealized gains and losses on available for sale securities including accumulated Other Comprehensive Income must flow through to regulatory capital under the proposed plan. This is a concern for Norway Savings Bank. For example, in 2012, we have picked up a gain in this area of about $4.3 million as of 9/30. If the AOCI adjustment for our Defined Benefit plan is included in the calculation it would mean a deduction from capital of $7.3 Million to net against our gains. Our municipal bond and MBS portfolio combined is about $42 Million and currently has about $4.5 Million of unrealized gains contributing toward risk based capital. In an up rate environment the erosion of those gains and potential for unrealized losses could reverse the gains. The current holdings are forecasted to retain their pricing at 90% or better in an up 300 rate environment. So if for some reason we weren't able to sell and reinvest in higher yielding bonds, the impact to capital could result in a roughly $8 million or 6%-8% hit.

- The proposal assigns risk weights to residential mortgages based on (1) whether the mortgage is a traditional category 1 or a "riskier" category 2 mortgage, and (2) the loan to value ratio of the mortgage.

  The proposed rules do not include any type of grandfather provision so all mortgage loans currently on our books would be subject to new capital requirements. Norway Savings Bank will be forced to examine the thousands of mortgage files on our books to determine the appropriate category and LTV ratio for each mortgage. Furthermore the bank does not possess the necessary automated systems to track this information. We are concerned about the burden and expense that this will place on Norway Savings Bank.

  In addition, the proposed rules do not recognize private mortgage insurance at all. Norway Savings Bank has written a large number of mortgages over a span of many years with PMI. Although PMI reduces the risk of loss, these mortgages would be subject to higher risk weights.

- The new proposal classifies all junior liens such as home equity loans and lines of credit as category 2 exposures with risk weights ranging from 100 to 200 percent. In addition, the proposal requires that we treat two or more mortgages on the same property as category 2 exposures. Norway Savings Bank promotes relationship lending. We embrace home equity lending for our first mortgage customers. We want to meet their needs...we don't want them to go to our competitors for their home equity needs. However, under this proposed regulation, we might question providing a home equity at all to our first mortgage customers since clearly we don't want the first mortgage to be weighted in a higher risk class.

Additionally, Norway Savings Bank is one of the largest home equity providers in the country amongst mutual banks less than $1 billion in assets. Our home equity portfolio is roughly $140 million. If we are forced to categorize these loans and lines into a category 2 risk class, we may in fact decide that we are unable to provide this product in the future. Our customers would be forced to find alternate, more costly financing arrangements for purchases such as college educations. This would be devastating to our communities and would significantly impact our ability to compete in the marketplace.

- The proposal would assign nonresidential loans over 90 days past due a risk weight of 150%. Currently Norway Savings Bank uses a very proactive and comprehensive process to identify problem loans. Our credit risk processes are strong and the bank's adversely criticized assets are accounted for in the Allowance for Loan and Lease Losses. This additional risk weighted requirement essentially double counts the impact to capital.

- Using available resources to calculate the current impact to capital based on the Basel III proposal, Norway Savings Bank's risk based capital would move from the present 14.27% to 11.42%, a change of almost 3%. The Bank enjoys a strong capital position as a result of many years of prudent management. The bank would most certainly consider a reduction in lending if we could not maintain our well capitalized position with a reasonable cushion.

In short, the Basel III proposal is a far-reaching, "one size fits all" approach to risk and capital requirements. As a community bank with very sound risk management processes, we believe that Basel III is not appropriate and raises serious concerns. Norway Savings Bank is a mutually chartered organization with limited options to raise capital. Although the higher capital requirements may be appropriate for internationally active institutions, the impact to Norway Savings Bank and other community banks would be very damaging.

We ask you to consider the impact that implying the Basel III standards will have on community banks. The complexity is daunting and we are very concerned about the devastating impact to our communities. We ask you to roll back the requirement for community banks.

Thank you for your consideration.

Sincerely,

Patricia W. Weigel

Patricia W. Weigel
President
Norway Savings Bank