RANDOLPH
SAVINGS BANK

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

Thomas J. Curry
Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219

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 comment on the Basel III proposals that were recently issued by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Randolph Savings Bank (Bank) is a $390 million Massachusetts state chartered savings bank, wholly owned by Randolph Bancorp, a Massachusetts mutual holding company. We operate in eight locations, spanning two states. The Bank is a community oriented, financial institution whose primary business consists of attracting retail and commercial deposits and lending those funds to our customer base, at a competitive price. We strive to be the leader among independent, community based financial institutions within our market, through building and maintaining strong relationships with our customers and communities.

We recognize the intent of Basel III is to improve the safety and soundness of the financial institutions in an effort to safeguard the country's economic system. However, the Basel III proposed standards will create an excessive capital retention burden on small financial institutions across the country, of which the Bank is one. We believe there are specific provisions that will, undoubtedly, hinder our ability to conduct business in the manner which our customers and employees are familiar, while trying to maintain strong core earnings and accumulate capital.

Unrealized Gains and Losses on Securities

The Bank has determined the Basel III provision relating to the inclusion of unrealized gains and losses on available-for-sale marketable securities in Common Equity Tier One Capital (CET1) will be detrimental to our organization. The Bank has a securities portfolio of $164 million, with a current unrealized gain of $7.3 million. This portfolio consists of amortizing and non-amortizing GSE and US government-guaranteed debt, corporate debt, municipal debt and a small amount of equity investments. We only invest in high quality securities in an effort to insulate our capital from excessive credit risk exposure. The Bank plans to change our balance sheet composition to reduce our securities portfolio and increase other earning assets; however, such a change will take time.

This provision would result in the Bank's capital being sensitive to changes in our portfolio's unrealized position. As rates undoubtedly increase in the future, the Bank will lose most, if not all, of the portfolio's gains. Over the past twelve months, we have seen the Bank's unrealized gain position fluctuate between $3 and $7.3 million, with virtually no change in the credit risk profile of the portfolio. This price volatility results from changes in interest rates. If we are required to expose regulatory capital to this volatility, we would have to allow for a several million dollar capital cushion. Because we do not access to capital markets to increase equity, we could be forced to shrink our balance sheet. Shrinking our balance sheet would affect our ability to service our customer base as we would be forced to reduce staffing and locations.

The Bank would also consider divesting ourselves of a significant portion of our available-for-sale portfolio and place those proceeds into federal funds until we could find credit-worthy and interest rate responsive opportunities. If this provision becomes required, we may have to change our balance sheet composition and negatively impact our margin at a time when net interest margins are already under pressure.

We ask that this provision be deleted from the Basel III proposal. We believe that the current other-than-temporary impairment guidance allows regulatory capital measures to reflect the credit risk of our securities portfolio through impairment charges to earnings (if needed). To require banks to record the entire unrealized position of an available-for-sale portfolio in regulatory capital will result in unnecessary volatility, and will require the Bank to alter our current strategic and operating philosophy.

Loan Risk Weighting

The Bank has determined that the residential mortgage risk weighting and the delinquent loan provisions in the Basel III proposal will hamper our ability to service our community. The Bank has a residential loan portfolio of $90 million. We believe that parsing out performing residential loans, both new originations and legacy loans, into eight different risk weighted buckets is, first and foremost, an extremely onerous process for a bank our size that would require core system modifications and increased staff resources. At a time when earnings growth is a challenge for all community banks, this provision will directly reduce our capital through increased operating expenses.

Institutions may be required to increase capital reserves in situations where a mutually beneficial solution has been reached with a delinquent borrower. This could produce the unintended consequence of deterring banks from working with delinquent borrowers. Banks will have to reevaluate their workout programs and determine if such programs are still sustainable. Such action may effectively force banks to revert to more draconian, potential undesirable collection practices, procedures and philosophies, which will be unfavorable for the customer.

We ask that this provision be completely removed from the Basel III proposal. The Allowance for Loan and Lease Losses (ALLL) is the appropriate vehicle to measure the risk in a loan portfolio and appropriately capture the required reserves. The ALLL calculation is a financial reporting estimate which serves as a capital preservation buffer. The ALLL considers a myriad of risk factors for the performing loan portfolio, with an even more granular analysis for non-performing loans. The current risk weights assigned to a residential loan portfolio suitably layers capital reserves on top of the calculated ALLL balance. If the Bank is required to increase these risk weights, we will need to evaluate our entire residential lending program and alter the portfolio products and workout solutions.

Mortgage Banking

The Bank has determined there are two provisions in the Basel III proposal that will negatively impact our mortgage banking operations: the mortgage servicing asset provision and the credit enhancing representations and warranties provision. We offer a wide array of competitively priced mortgage products to retain and attract a comprehensive customer base, including first time home buyer programs for low to moderate income borrowers and HARP and HAMP restructures.

Currently, the Bank would not be impacted by the mortgage servicing asset provision, as our servicing portfolio, individually, is below 10% of estimated CET1. However, the Bank has increased our servicing portfolio by 275% over the past 30 months. We plan to continue to build our residential mortgage infrastructure and consequently will continue to increase our mortgage service assets, pushing this balance to the 10% CET1 threshold in the coming years. Once we get to this disallowed threshold, we will have to explore the possibility of reducing the number of loan programs we offer, increasing pricing, or selling all loans servicing released. All of these options significantly impede our current and future customers from obtaining affordable, responsible and desirable mortgage products.

Additionally, the Bank sees an increase from a 100% risk weight to a 250% risk weight on these servicing assets as unnecessary. Every quarter the Bank reviews these assets for impairment and records a charge to earnings if it is determined those assets are impaired. This impairment review allows the Bank to accurately report the capital exposure relative to our servicing assets, similar to the other-than-temporary impairment review done on available-for-sale investment securities.

The Bank currently does business with six mortgage investors. Two of those investors require the Bank to provide credit enhancing representations and warranties. Those two investors are currently buying most of our first time home buyer originations. If the Bank was required to retain capital today for those loan sales, and any pipeline loans earmarked for sale to those investors, we would need to immediately alter our mortgage banking operations. The Bank would have to scale back the amount of first time home buyer production or ask those investors to remove our credit enhancing representations and warranties as a requirement. Neither one of these options is advantageous.

The removal or reduction of our first time home buyer products is troubling. If we were to cease our first time home buyer initiatives and originations, we would reduce our lending in low to moderate areas. Unfortunately, we would be restricting a segment of our customer base from having the option to receive fairly priced home financing options through the Bank. This would inhibit our ability to serve our community needs.

If the Bank was to reduce the amount of funds available under a first time home buyer initiative, we would risk violation of Regulation AA (Unfair or Deceptive Acts or Practices), as we currently promote ourselves as a first time home buyer lender. To alleviate this concern, the Bank would need to alter our strategic plan and operating philosophy of our residential lending business unit. The Bank wants to continue to offer a first time home buyer program.

Conclusion

Randolph Savings Bank believes that many of the Basel III provisions will have a negative impact on community banks. Specifically, the Bank will have to reevaluate our entire business model and strategic plan to ensure that Basel III will not result in negatively impacting our capital and earnings. Randolph Savings Bank wants to continue to support the communities we serve by providing safe, sound, and desirable financial services. Please help us do this by exempting community banks from these burdensome proposed regulations.

Thank you for your consideration.

Very truly yours,

John J. Doyle, Jr.
President and Chief Executive Officer

Phillip J. Carnevale
Vice President and Chief Financial Officer

cc: Daniel E. Frye
Area Director
Federal Deposit Insurance Corporation
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