SPENCER SAVINGS BANK
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October 22, 2012

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

Office of the Comptroller of the Currency
250 E. Street, SW
Mail Stop 2-3
Washington, DC 20219

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

I am President of Spencer Savings Bank a $375 million Mutual Holding Company in Spencer, Massachusetts. Our bank is integral to local economies and focuses on meeting the needs of small businesses and families and individuals in our 6 locations. As bank consolidation continues, increasingly small businesses and consumers turn to local community banks to meet their needs. The Basel III proposals, coupled with additional burdens placed on community banks by the Dodd Frank bill, continue to threaten the existence of community banks.

[1] The proposals are titled: *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*

As written, the proposed Basel III rules that pertain to all banks regardless of size and scope of operations is not appropriate for small community banks. While I am supportive of higher minimum capital levels than those that exist today, the one size fits all approach is the greatest threat to community banking. As a result, I am opposed to the Basel III proposal as drafted.

Specifically, I am opposed to the following proposals:

- Revised Risk Weights for Residential Mortgages

  Increasing the risk weighting for junior liens with LTV's greater than 60% ignores the risk profile of individual banks in terms of differences in local housing markets and the individual loss experience of banks. Requiring higher risk weightings will require the bank to hold more capital against a product that for Spencer Savings Bank has been a relatively minimal risk. This in turn will require us to increase the rates on junior lien mortgage products to our consumers.

  Examiners know our Balance Sheet; I believe that the regulatory field exams are the place for the determination of appropriate individual capital levels at banks based on an assessment of the individual banks risk profile.

- Ignoring Private Mortgage Insurance:

  Requiring increased risk weights for mortgages that exceed 80% LTV and , at the same time ignoring the presence of private mortgage insurance, will hamper community banks like ours from providing mortgages for those borrowers with strong credit and income but lacking down payments. We require PMI on all mortgages with LTV's over 80%. The proposal does not differentiate between a bank like ours that requires a credit enhancement for high LTV loans and banks that do not.

  Examiners know our Balance Sheet; I believe that the regulatory field exams are the place for the determination of appropriate individual capital levels at banks based on an assessment of the individual banks risk profile.

- Revised Risk Weights for Past Due Loans:

  The proposal would increase the risk weighting for past due loans. While on the surface this proposal makes sense, it only takes into account one aspect of credit risk, the Risk of Default. The proposal does not adequately consider the Risk of Loss. Over the 10 years that I have been president of this organization, we have had any number of loans that have become past due. A small percentage of these loans, mainly in the last 3 years, have actually resulted in credit losses. This was due to our history of conservative underwriting and requiring strong collateral positions, the losses were primarily due to a decline in property values and job losses.

Bank Examiners know our Balance Sheet; all banks are required to establish and maintain an Allowance for Loan and Lease Losses (ALLL) that is reflective of the expected losses inherent in the loan portfolio. Rather than requiring higher risk weights across the board, each individual bank's ALLL should be reflective of increased risk of loss. Again our entire capital position is Loan Loss Reserves as well.

In closing, I again request that the regulatory agencies reconsider the one size fits all approach and the impact of such on community banks like ours. I also for the life of me do not understand why Credit Unions who are doing everything a Savings Bank does are exempt to Basel III.

Sincerely,

K. Michael Robbins

K. Michael Robbins
President & CEO
Spencer Savings Bank