October 4, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, 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, D.C. 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").

Passumpsic Savings Bank is a $575,000,000 state (VT) chartered stock savings bank wholly owned by Passumpsic Bancorp headquartered in St. Johnsbury, VT. Passumpsic Bancorp is a Mutual Holding Company with no shareholders. We operate eleven offices throughout northeastern Vermont and northern New Hampshire. The bank was chartered originally in 1853. While historically a savings bank we provide a diverse but traditional array of loan products throughout our market area; residential real estate loans, consumer loans, commercial and commercial real estate loans and municipal finance. Our loan portfolio is well balanced between residential real estate loans, consumer/auto loans, commercial and commercial real estate loans.

[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.*

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In our residential lending we continue to provide traditional fixed rate mortgage loans up to 30 years that are non-conforming to secondary market standards. The vast majority of these loans are non-conforming due to property characteristics, not credit characteristics. This finance is critical to supporting home ownership in this rural region that cannot be served wholly by the secondary market. We also sell conforming residential loans to the secondary market.

In order to meet the needs of the rural and economically depressed regions of Vermont and New Hampshire that we serve it is imperative that we continue to provide this diverse and wide ranging suite of loan products. This region is not served by the large "systemically" important financial institutions. It relies on community banks such as ours to provide the essential capital to foster an improving economy.

While we have not been able to identify the added cost of complying with this new regulatory burden, which we are sure will be not insignificant, our primary concern is the effects the new capital and risk rating requirements will have on our ability to continue to meet the needs of our market area.

We understand the need for institutions to carry more capital and the importance for stronger capital levels at all banks and particularly large complex financial institution. However, our preliminary calculations indicate the new rules will lower our Total Risk Based Capital from just under 13% to around 11.3%. The higher risk weighting for residential real estate loans with private mortgage insurance, and having home equity loans effecting the risking weighting on the first mortgage loan when both are held by the same institution are onerous and punitive, particularly for community banks that have operated within safe and sound banking practices and were not part of the problem. Applying the new risk weightings to these loans will have significant adverse effects on first time home buyers and many good borrowers that only lack traditional down payments. Banks like owns will be forced to limit availability of this credit.

Additionally there are no provisions to have the risk weightings change when LTV's drop over time with payments or with lump sum prepayments. Ultimately these proposals will limit the level of credit available to our market (a market not unlike many other rural areas across the U.S.).

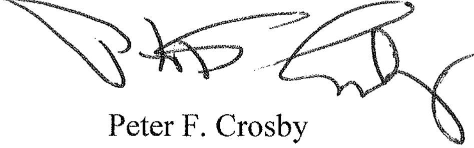
The requirement to have unrealized gains and losses run through tier 1 capital additionally can either mask true capital when interest rates decline and investment portfolios gain in value. Institutions will be forced to monetize the gains at the potential expense of minimizing built in liquidity within the balance sheet, which is critical to sound liquidity management.

When interest rates rise institutions that otherwise have sound earnings, low credit risk exposures may be forced to abandon investing in loans to their local markets. A conceivable requirement would be for community banks to raise outside capital as a result of what could be a temporary interest rate cycle. Mutual institutions have no avenue to raise capital externally.

For these reason I urge that you reconsider applying the Basel III rules to institutions under $10 billion. These rules will only serve to limit credit availability particularly in the less urban

regions of the country. Additionally these rules will lead to further concentration of banking assets in the very large Systemically Important Financial Institutions and thus increasing the systemic risk they are meant to mitigate.

Sincerely,



Peter F. Crosby
President