Belmont
SAVINGS BANK

October 16, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Delivered via email: regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219
Delivered by email: regs.comments@occ.treas/gov

Robert E. Feldman, Executive Secretary
Attention: Comments / Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C.
Delivered via email: comments@fdic.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I appreciate 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.

Belmont Savings Bank is an $822 million state chartered savings bank established in 1885. The Bank has a proud history of financial strength and meeting the credit needs of the communities we serve. The bank is a wholly owned subsidiary of BSB Bancorp, Inc. As of June 30, 2012, BSB Bancorp, Inc. (consolidated) had Tier 1 Leverage Capital of 17.85%; Tier 1 Risk Based Capital of 25.39%; and Total Risk Based Capital of 26.45%.

Belmont Savings Bank is primarily a commercial lender serving small to medium size businesses and real estate developers / investors in our market area. We also serve individuals through the origination of residential mortgage loans, home equity lines of credit and automobile finance programs.

I support increasing the capital requirements for banks in our country to ensure the industry has sufficient financial strength during periods of economic weakness and continue to meet the credit needs of our communities. However, the Basel III Capital Proposal should only apply to the largest, internationally active banks and not community banks. Community banks should be allowed to continue using the current Basel I framework for determining capital levels.

The following items are areas of the proposal in which I have concerns:

I. Requirement that gains and losses on available for sale securities must flow through to regulatory capital

A significant concern is the inclusion of unrealized gain and losses on available for sale (AFS) securities held in the investment portfolio. The inclusion of unrealized gains and losses on AFS securities in determining Tier 1 capital has the potential to substantially increase the volatility of Tier 1 capital and distort regulatory capital ratios.

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Securities held in the AFS investment portfolio are primarily utilized for liquidity risk management purposes. If the proposal is approved we would most likely reclassify investment portfolio securities from "available for sale" to "held to maturity" and classify future investment purchases as "held to maturity". This could result in the distortion of our liquidity ratio and negatively affect interest risk management. Community banks should continue to exclude "Accumulated Other Comprehensive Income" from capital ratios.

II. Increased risk weighting for residential mortgage loans

The proposed rule will make residential mortgage loans more difficult to obtain. This will make it more expensive for first time homebuyers who have less than 20% equity to obtain a mortgage. The current allocation of capital will double on a loan made to a first time homebuyer who has 5% equity with private mortgage insurance covering the remainder of the loan.

The change from assigning "risk weightings to asset classes" to assigning "risk weightings to individual loans" will create an administrative burden. The proposal requires the continual re-evaluation of the assigned risk weightings based upon changes in collateral values, past due status and other risk factors.

This proposal significantly increases capital costs and the administrative burden for portfolio lenders compared to unregulated mortgage lenders who are not subject to these requirements.

III. New rules regarding "High Velocity Commercial Real Estate" loans

The proposed rule will increase the capital allocation for "high velocity commercial real estate" loans from 100 percent to 150 percent. The administrative burden required to track the components necessary to qualify as a non-high velocity commercial real estate loan will be significant. The proposal will make high velocity commercial real estate loans more expensive.

IV. Proposal to increase risk weights on delinquent loans

The risk related to problem and delinquent loans should continue to be managed through the allowance for loan and lease loss analysis regulatory guidance and not by imposing additional capital requirements. The increase of the capital allocation on delinquent loans is redundant. The effect could impact the aggressiveness in moving loans that become ninety days past due off the balance sheet which reduces the willingness to work with delinquent borrowers to remediate issues.

The cumulative effect of each of the items reflected above will have a significant impact on most to the community banks in this country. I strongly urge you to consider this impact and to consider a possible exemption for most of the community banks from a majority of the proposed rules. Community banks with traditional loan products and funding sources should be allowed to continue to use the current Basel I framework for determining capital levels. Our nation's community banks need to be able to continue serving our communities and helping to strengthen our local economies.

Thank you for your consideration.

Sincerely,

Robert M. Mahoney
President & Chief Executive Officer

cc:

Senator John F. Kerry
Senator Scott P. Brown
Congressman Edward J. Markey