MEREDITH
VILLAGE SAVINGS BANK
You ask. We listen. *Together we solve.*

October 17, 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 issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. While we share your desire to ensure that the problems that led to the 2008 financial crisis do not reoccur, we believe that these new proposals are too punitive and should not be applied to community banks, especially mutual savings banks such as Meredith Village Savings Bank (MVSB).

Mutual savings banks have been an integral part of communities across the U.S. and particularly the Northeastern U.S. for decades. MVSB has been a main stay in the communities it serves in central New Hampshire for over 140 years. Banks like ours provide funding for residential and small businesses across the U.S. Americans need these banks to continue to thrive and provide the credit necessary for businesses to grow and create new jobs which in turn generates confidence in the economy. All of these things need to occur to achieve prosperity in America again.

Community and mutual savings banks are already on a different playing field than commercial banks. They do not have access to the capital markets except for issuing trust preferred securities. However, BASEL III rules will dismantle this capital vehicle. The only way for community and mutual savings banks to increase capital is through earnings. Due to the current economic realities, in particular the low interest rate environment, it could take years or even decades to replace the capital that will be senselessly destroyed under the proposed rules. Furthermore, these rules will create an unnecessary constriction of credit across America. We do not believe you intended either of these outcomes.

MVSB has continually been a well capitalized bank with an experienced, conservative management team and our regulatory examination reports prove it time and again. Our earnings are strong and growth has been organic and measured. Our loan underwriting has been prudent and our non-performing loans are minimal as are most of our peer banks. Loan loss reserves are adequate as evidenced by low charge off history. We do not believe increases to loan risk weights are necessary based on our historical performance.

[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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We are also concerned that adding the unrealized gains or losses of available-for-sale debt securities to regulatory capital will create unnecessary volatility and require regulators, analysts and investors to create shadow calculations to remove them from capital ratios to determine the true picture of banks' capital. Again, we do not believe you intended to create more volatility or hinder the evaluation of the banks you regulate.

Furthermore, it seems inconsistent to include in capital calculations the unrealized gain or loss of debt securities currently recorded in Accumulated Other Comprehensive Income (AOCI) but not include the respective unrealized gains or losses associated with cash flow hedges of balance sheet items. These hedges are simple interest rate risk hedges of assets and liabilities that are subject to changes in valuation similar to investment securities. Therefore it seems the unrealized gains and losses of both debt securities and cash flow derivatives should be included in the capital calculations or leave both of them out. We believe leaving them both out of capital calculations would be the most prudent to avoid unnecessary volatility.

Community banks will be further crippled by the proposed rules regarding mortgage servicing. Based on BASEL III, some banks may choose to exit the mortgage servicing business impacting long standing customer relationships and reducing fee income. If community banks are penalized for servicing their own loan portfolios they will not be able to offer mortgage products to their communities. This legislation will drive mortgage lending to the national banks, not community banks that know their customers. These are the very banks that many have said are "too big to fail" and many have called them "too big to regulate". We do not believe you intend for national banks to become even larger and create more risk in an even more concentrated group of banks. Community banks offer diversification of the risks of banking away from the national bank structures. Therefore, we recommend there be no deduction from capital for mortgage servicing assets or at a minimum raise the threshold to 25% of capital and allow banks to include 100% of the fair market value of mortgage servicing assets to reduce the impact of the proposal.

BASEL III will further crush the ability of community banks to offer the unique mortgages and small business loans that serve our communities' needs due to the unnecessary increases in risk weightings; some as high as 250%. If higher risk weights are required for loans, community banks will have to either curtail their lending for these perceived riskier types of loans or banks will be forced to increase loan rates in order to offset the capital impacts. Either way, community banks that were created to serve the communities they know best will no longer be able to offer these products due to the capital constraints of BASEL III. Communities will lose their abilities to grow and develop via new businesses and other developments.

Another significant impact to capital ratios under the proposed BASEL III rules would be the deduction from capital for a bank's investments in unconsolidated subsidiaries. MVSB has a significant investment in an unconsolidated wealth management company. The deduction from capital related to this investment will result in a loss of capital of over $6 million which causes our leverage capital ratio to decrease 92 basis points and a decrease in Tier 1 and Total Capital ratios of 117 basis points. We believe this reduction of capital is unreasonable and unnecessary.

The following table shows an estimate of the impacts due to the proposed BASEL III capital rules including AFS securities valuations, 250% risk weighting of mortgage servicing rights and the deduction for investments in unconsolidated subsidiaries (dollars in millions).

Capital estimated based on data as of 06/30/2012	**Current** Capital Ratios and Amounts	**Basel III** Capital Ratios and Amounts	**Changes due to BASEL III Proposals**	AFS Securities added to Capital & Interest Rates Rise of 300 bps	Changes due to Interest Rate Rise of 300 bps	**Total changes due to BASEL III**
Leverage Ratio	10.87%	10.10%	**(0.77%)**	9.24%	(0.86%)	**(1.63%)**
Common Equity Tier 1 Ratio	N/A	12.90%	**N/A**	11.81%	(1.09%)	**(1.09%)**
Tier 1 Capital Ratio	15.39%	12.88%	**(2.51%)**	11.79%	(1.09%)	**(3.60%)**

Total Capital Ratio	16.52%	13.90%	**(2.62%)**	12.82%	(1.08%)	**(3.70%)**
Capital Amounts						
Common Equity Tier 1	N/A	$67.7	**N/A**	$60.9	($6.8)	**($6.8)**
Tier 1 Capital Ratio	$72.9	$67.7	**($5.2)**	$60.9	($6.8)	**($12.0)**
Total Capital Ratio	$78.2	$73.1	**($5.2)**	$66.3	($6.8)	**($12.0)**
Risk Weighted Assets	$473.6	$525.4	**$51.8**	$520.2	($5.2)	**$46.6**

The table above shows that MVSB stands to lose $5.2 million in Tier 1 and Total capital value if the BASEL III rules are implemented. In addition, our risk weighted assets would increase $51.8 million. The combined effect is a reduction in our Tier 1 and Total capital ratios of 251 and 262 basis points, respectively. Our net income for the past two years has averaged $4.3 million. **It would take years if not decades to replace the capital that would be eliminated immediately due to the implementation of the new BASEL III proposals.**

If our available-for-sale (AFS) investment securities portfolio is added to the capital calculations as proposed by BASEL III and we assume interest rates increase 300 basis points, MVSB will lose another $6.8 million in capital. This equates to an additional reduction in our Tier 1 and Total capital ratios of 109 and 108 basis points, respectively, despite the fact that there has been no change in the risk profile of our bank.

In this limited example of impacts, MVSB will experience **a total loss of capital of $12 million** all for the sake of changing the regulatory capital rules. We have not even begun to quantify the impacts related to lost revenue due to the multitude of other regulations yet to be promulgated from the Dodd-Frank Act and the CFPB. We do not believe the BASEL III rules are needed and if implemented will decimate the financial system and destroy the country's ability to rise out of the current economic recession.

Furthermore, current authority provided to your regulatory agencies empowers you to impose higher capital standards and many other corrective actions for troubled institutions as necessary. We see no need for arbitrarily higher capital standards. Community banking business models are simple and based on our performance and that of many other peer banks similar to ours, we see no reason to impose the new BASEL III rules on community banks. We believe operating under the BASEL I rules has worked well as evidenced in our performance and regulatory exam scores.

Therefore, we ask that you reconsider the BASEL III capital proposals and their impacts on community banks.

Sincerely,

Samuel L. Laverack
President & CEO
Meredith Village Savings Bank

CC: NH Bankers Association
The Honorable Jeanne Shaheen
The Honorable Kelly Ayotte
The Honorable Charles Bass
The Honorable Frank Guinta