Clinton
Savings Bank
An experience you can bank on.

October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Basel III Docket No. R-1442
Delivered via email regs.comments@federalreserve.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Basel III FDIC RIN 3065-AD95, RIN 3064-AD96 and RIN 3064-D97
Delivered via email comments@FDIC.gov

Office of the Comptroller of the Currency
250 E. Street, SW
Mail Stop 2-3
Washington, DC 20219
OCC Docket ID OCC-2012-0008, 0009 and 0010
Delivered via email regs.comments@occ.treas.gov

Ladies and Gentlemen:

Thank you for 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 (collectively the "banking agencies").

Clinton Savings Bank (CSB) of Clinton, Massachusetts was founded in 1851 and has been around for more than 160 years with 6 full service branch locations, an operations center, and a high school branch. Our region needs a bank that is focused on our community, the success and future development of Clinton, MA and its surrounding towns, and that is what our bank is all about. We are here to serve the needs of the communities we live in and are committed to the future growth and prosperity of the towns we are so proud to call home.

We are financially strong, secure and our decisions are made by a dedicated team of employees. Our assets are $472 million with capital and reserves totaling just over $54 million. We offer loan and deposit products, as well as other financial services, to meet the needs of any business, individual, not-for-profit or municipality.

We would like to comment on the following statements:

1. Available-for-sale gains or losses inclusion in capital.

2. Increased risk weighting for residential mortgage loans.
3. Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential home loans which have been sold into the secondary market.
4. Change in risk weighting for home equity and second lien loans.
5. New rules regarding "High Volatility Commercial Real Estate".
6. Proposal to increase risk weights on delinquent loans.
7. Elimination of Trust Preferred Securities (TruPS) from capital.

1. Available-for-sale gains or losses inclusion in capital:
A provision of the Basel III proposals would be the inclusion of unrealized gains and losses on all available-for-sale securities in Tier 1 Capital. This would include unrealized gains and losses related to debt securities whose valuations change primarily as a result of fluctuations in market interest rates, as opposed to credit risk. This requirement will add a significant amount of volatility to capital ratios.

Clinton Savings Bank's available-for-sale portfolio includes U.S. government and government sponsored enterprises, representing more than 70% of the portfolio, whose market value reflects market interest rates rather than credit spreads.

If the intent is to capture interest rate risk in capital, than the intent falls short because approximately 21% of the Bank's assets are included in the available-for-sale portfolio. The interest rate risk attributable to other interest earning assets and liability would not be reflected in capital. The Bank manages interest rate risk on an enterprise basis, and requiring us to reflect interest rate risk on less than 25% of our assets in capital would disrupt asset/liability management practices that have been developed over time, with the encouragement of regulatory agencies.

If this rule is adopted, the Bank will likely trend towards greater use of placing debt securities in the held-to-maturity category. However, this action will limit the Banks' ability to hold marketable liquid assets, thereby hindering its liquidity position. The Bank uses the investment portfolio to manage overall interest rate risk sensitivity, shortening or lengthening duration/cash flows when necessary to affect the global sensitivity of our balance sheet. A reclassification to held-to-maturity will lessen our ability to manage the interest rate risk position effectively. If we continue to keep a portion of our debt securities portfolio in available-for-sale, we will likely seek shorter durations in order to mute any effect the portfolio may have on capital. This will result in a compression of yield usually achievable through longer duration investments.

2. Increased risk weighting for residential mortgage loans:
We are very active in the mortgage lending business. Our underwriting has been strong with excellent results during these difficult times. The new capital proposals related to risk weighting of residential mortgages are significantly higher than the current existing risk weighting for asset classes. The proposal would create a significant burden on our bank. It would require a large amount of time to review the portfolio, since no loans were grandfathered. This may result in the hiring of additional staff. Just to obtain the data, the investment in systems and personnel requirements will be significant. We not only will need to assign a risk weighting initially, but must continually re-evaluate the risk weighting based on changes in collateral values and other risk factors.

3. Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential home loans, which have been sold into the secondary market:
We have been active in selling to the secondary market for a number of years and have never had to buy back a loan. The concern to our bank is the explanation of some of the representations and warranties and the length that they need to be carried. A concern is how far back regarding secondary mortgage loan sales does this requirement represent. CSB has sold over $100 million worth of loans during the past five years which means we could be required to set aside $10 million in capital for loans sold over a long

period of time. The answer to these questions will determine if we will need to exit this business going forward. This could directly impact the consumer.

4. Change in risk weighting for home equity and second lien loans:
The majority of our home equity loans are in a junior lien position where we don't hold the first position, which would require us to be subjected to a Category 2 risk evaluation ranging from 100 to 200 percent. Our experience with these loans has been strong. If this risk weighting has a detrimental effect on capital we may choose not to offer this kind of loan or will have to charge a much higher rate of interest for this type of loan. As indicated, our experience has been positive so the customer wanting this type of loan would need to find another source.

5. New rules regarding "High Volatility Commercial Real Estate":
Increasing risk weights on high volatility commercial real estate loans is an unnecessary means of raising capital requirements in community banks. The risks associated with this type of loan should be assessed in the ALLL analysis and any increased level of required reserves provides the capital buffer for the risks inherent in these loans.

6. Proposal to increase risk weights on delinquent loans:
We have had a good track record regarding delinquent loans. We already set aside reserves for loans that fall into a past due status that are 90 days or longer. By also increasing the amount of capital we hold based on the past due status, we are being required to set aside capital twice. We feel that the risk related to problem loans should continue to be managed through the loan loss reserve (ALLL) guidance and not by adding an additional capital requirement.

7. Elimination of Trust Preferred Securities (TruPS) from capital:

Finally, one of the most important proposals is the elimination of Trust Preferred Securities from capital which will cause us to restrict our growth. As a mutual savings bank we have no shareholders and can only increase our capital levels thru earnings or by decreasing our size. We currently have $7.7 million of Trust Preferred Securities outstanding. At a minimum we would need to restrict our growth to offset the elimination of this capital. We would probably need to actually shrink our assets to ensure adequate capital levels while continuing to grow earnings which will be counter-productive.

In conclusion:
We are concerned that the proposed capital rules could create funding challenges. The proposed rules are complex and require the reporting and maintaining of granular data, greatly increasing the burden on community banks. Additionally the new increased capital requirements for U.S. Treasury and other securities that banks hold in their investment portfolios could impact how banks manage liquidity and interest rate risks.

We believe the proposal will have significant unintended consequences for community banks. The proposed rules could make it even harder to raise needed capital. Community banks may change their business plans as a result of the rules, which could reduce lending and economic growth in the communities they serve.

Thank you for your time and consideration in this matter.

Sincerely,

Richard Hayward, Jr., CPA
SVP / CFO / Treasurer