Ulster Savings

Banking • Loans • Investments • Tax & Payroll • Insurance

October 19, 2012

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

Re: FDIC RIN 3064-AD95, FDIC RIN 3064-AD96, and FDIC RIN 3064-AD97

Dear Mr. Feldman:

This letter is in response to the Basel III capital requirements and their impact on our Bank. Ulster Savings Bank is a mutual savings bank which has been serving our community in the Mid-Hudson Valley for 161 years. As a mutual, our only source of capital is retained earnings. We are a well capitalized institution; however, there are changes in the new capital measurements which could jeopardize this status in the future.

Ulster Savings Bank has specialized in providing customers with an excellent alternative to the big four mortgage lenders. Prudent asset and liability management prevails at our institution so we sell our longer term fixed rate mortgages to several government or GSE alternatives. We retain servicing on the vast majority of these loans. Under GAAP we are required to value these servicing rights. These excess servicing rights today represent 8% of our capital; however they have exceeded 10% in the recent past. We understand that several large servicers abused the utilization of these rights but we believe none of these institutions are in business today. Most servicers, like Ulster Savings, have been as conservative as our accountants permit in recognizing these rights. They are currently on our books at approximately 60 basis points. Our calculations each month are independently provided and extensively reviewed by internal and external auditors as well as our examiners.

Retaining servicing is important to good customer relations; however, it is even more important in New York due to our unique mortgage tax structure which dictates that refinances be handled as modifications with your current servicer to prevent repayment of this onerous tax which can exceed 1% of the mortgage amount.

When these rights are appropriately managed, there is no volatility that should warrant a 10% capital limitation or a 200% asset categorization for the remainder. This is truly impeding community banks' ability to provide a mortgage alternative to the big box lenders. Based on our current amortization schedule, we would fully amortize these rights in less than three years if they were not replaced. This limitation and excess asset categorization should be eliminated. It should also be noted that these rules will impede the marketability and value of these important, assets which, is likely an unintended consequence.

As a mortgage lender, residential mortgage loans (and to a lesser extent home equity loans) constitute a significant portion of our Bank's assets. The new capital requirements surrounding these loans are also disproportionate to their risk. These loans are adequately reserved, significantly limiting their volatility. The rule also pertains to their initial LTV and ignores payments which ultimately bring these loans to conforming ratios. Additionally, it ignores private mortgage insurance completely. While there is some concern over the viability of certain M.I. companies, that concern ignores well capitalized parent corporations and the fact that all but one of these companies continue to meet 100% of their obligations. It also changes the rules midstream in capitalization requirements for assets we sincerely wish to retain.

We continuously hear that the government supports the community bank structure in this country and would like to reduce the nation's reliance on "Too big to fail" behemoth organizations. These rules are diametrically opposed to this goal. As a mutual, we have no access to the capital markets and many of our small stock counterparts have limited access to these markets.

The home mortgage business is a vital role performed by many community banks in this country. Ulster Savings has for many years been the largest residential mortgage lender in our home county and one the largest in the mid-Hudson Valley despite our small size and stiff competition from national lenders. This is due to our high level of service but also due to our customer's awareness of the great charitable services our Bank and 300+ staff provide to our community.

We truly feel these rules will reduce many organizations' desire or even ability to compete in the residential mortgage business and acknowledge this as an unintended consequence of the Basel III rules. We sincerely request that you exert your influence in reconsidering these rules, particularly as they pertain to community banks and specifically as they jeopardize our ability to operate traditionally in the future.

Sincerely,

Ulster Savings Bank

By: ______________________

Michael K. Shaughnessy,
Executive Vice President

cc: Senator Charles E. Schumer
Senator Kirsten Gillibrand
Congressman Chris Gibson
Congresswoman Nan Hayworth