Member FDIC

Cambridge Trust Company

1336 Massachusetts Avenue, Cambridge, Massachusetts 02138

October 19, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Delivered via email: comments@FDIC.gov

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, S.W.
Mail Stop 2-3
Washington, D.C. 20219
Delivered via email: regs.comments@occ.treas.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency (collectively the "Banking Agencies").

Cambridge Trust Company (the "Bank") is a $1.4 billion Massachusetts trust company chartered in 1890 that operates as a community-oriented commercial bank. The Bank offers a full range of commercial and consumer banking services through its network of 11 full-service banking offices in Massachusetts. Trust and investment management services are also offered through the Bank's branches in Massachusetts and through two wealth management offices located in New Hampshire. Our Bank is considered "well capitalized" and strives to maintain high marks in safety and soundness, compliance, and other requirements from the regulatory agencies.

While in general we are in favor of strengthening the capital requirements for our country's financial institutions to ensure that they remain healthy and are able to continue to serve their communities in the way that they have in the past, we do have concerns about the proposals which have been approved by the Banking Agencies. Moreover, we believe that the far-reaching nature and complexity of the proposals may have negative consequences for consumers, small businesses, and the banking industry.

Our greatest concern is that the proposals require the inclusion of unrealized gains and losses on available-for-sale investment securities in the Tier 1 Common Equity computation. Our available-for-sale investment portfolio totals approximately $500 million, of which 95% is comprised of U.S. GSE Agencies or GSE-issued/backed MBS products. These investments have little, if any, risk of loss, but are subject to interest rate risk. Presently, during a time of historically low interest rates, we have $13 million of unrealized gains in this portfolio. Shock testing this portfolio for a 400 basis point increase in market interest rates indicates that this would create an unrealized loss that in turn would reduce the Bank's Tier 1 Common Equity by a significant amount. This result would cause the Bank to no longer be considered "well capitalized" and when coupled with the proposed capital buffer restrictions, could reduce the Bank's ability to pay dividends on its stock and place restrictions on executive compensation. This reduction to regulatory capital occurs even though nothing has changed other than the interest rate environment that the Bank is in. Historically the Bank has generally held its available-for-sale investment securities to maturity and therefore would probably never actually recognize this unrealized loss.

Including unrealized gains and losses in the calculation of Tier 1 Common Equity, as required by the Basel III proposals, would put downward pressure on banks' regulatory capital levels, potentially causing them to reduce the growth of, or possibly shrink, their investment portfolios in order to maintain their capital at desired levels. Additionally, it would encourage banks to reduce the duration of their investments, resulting in less yield, and thus lower earnings for the industry.

A possible reaction that banks may have to the proposals is to sell all of their available-for-sale securities and place all future purchases in the held-to-maturity category. This would eliminate the cyclicality and volatility of the proposals, but it would also limit their ability to manage their investment portfolios through different economic cycles in a manner appropriate for maintaining their liquidity and earnings.

In summary, we believe the implementation of Basel III proposals would significantly alter the way community banks manage their investment portfolios, and therefore could negatively impact the way they serve their customers and communities.

Thank you for your time and consideration.

Respectfully submitted,

Joseph V Roller II

Joseph V. Roller II
President & CEO