October 19, 2012

PeoplesBank

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

Dear Ms. Johnson, Mr. Feldman and Mr. Curry

I have never before written a letter to our banking regulators but because of the severity of the consequences that BASEL III could have on PeoplesBank, I felt the need to write and express to you the consequences this proposal could have on our Bank and more specifically, our community.

Thank you for the opportunity to provide comments 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.

PeoplesBank of Holyoke, Massachusetts was founded in 1885 as a mutual state chartered bank and has been around for more than 125 years. We are a $1.7 billion institution with 18 branches, more than 250 employees and a Tier I Leverage Ratio of 9.6%. We have been recognized in 2012 by the Boston Business Journal as a top charitable contributor, The Massachusetts Chamber of Commerce as a top employer of choice in the entire state of Massachusetts and recently by the Boston Globe as a top place to work. Needless to say we are recognized within our community, **BY** our community and are proud of that.

Because of our Mutual charter I don't think I need to explain, to any of you, the challenge and consequences of raising capital would have on PeoplesBank while trying to maintain our mutuality under BASEL III. For that reason I would like to comment on a few of the proposals:

1. ***Available for sale securities 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 the bank's capital ratios.

   PeoplesBank's available-for-sale portfolio includes more than 90% agency mortgaged backed securities. Our investment portfolio is slightly more than 33% of the banks assets whose market value reflects market interest rates, rather than credit spreads.

   If the intent of BASEL III is to capture interest rate risk in capital, then the intent falls short because the remaining 67% of the Bank's assets are not included in the available-for-sale portfolio. The interest rate risk attributable to other interest earning assets and liabilities 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 33% of our assets in capital would disrupt asset/liability management practices that have been developed over time, with the encouragement of the 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 liquidity and 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 1-4 Family 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.

PeoplesBank has had very little Residential charge offs, has had an excellent track record of underwriting standards, has always had full loan doc loans, required PMI in 80% > LTV loans and sets aside a significant portion off its ALLL already against the credit risks of these loans. Capital restrictions will only duplicate reserving on this type of underwriting.

3. ***Change in Risk Weighting for HELOC 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. In addition, by requiring the 1st and 2nd liens to be combined when determining the appropriate LTV will only shift the banks focus and force us to encourage our customers to go to another bank in order to avoid the higher capital standard.

4. ***New rules on 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, is and should be, assessed in the ALLL analysis. Any increased level of required reserves provides the capital buffer for the risks inherent in these loans. Increased capital standards only duplicates this buffer for potential loses.

5. ***Elimination of Trust Preferred Securities (TruPS) from Capital***: For PeoplesBank, as a Mutual, I know you understand there are limited opportunities for us to raise capital and remain a mutual. Although we currently do not have TruPS, it remains one of the only vehicles available to us, should we need to raise additional capital and remain independent. Eliminating the use of this will only restrict our ability to grow or force our organization to raise capital with unintended or desired results.

6. ***Credit Unions*** - (and why doesn't this apply ?) if all regulators are truly concerned about capital standards and the impact they have on our "BANKS" and the effects they have on our communities, why isn't this applicable to credit unions? I don't understand the exemption my fellow competitors have received from this requirement.

Although there are many changes in capital standards in the new BASEL III proposals I have highlighted a few of our concerns that could have severe effects on PeoplesBank ability to grow and prosper as a community mutual institution. I encourage you to review these changes and reflect on these consequences before it's too late. They will have negative economic impacts to the communities we all live in.

Thank you for you service and attention to these issues.

Sincerely,

Thomas W. Senecal

Thomas W. Senecal, CPA
EVP/ CFO/ Treasurer