BridgewaterSavings

October 18, 2012

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

RE: FDIC RIN3064-AD95, FDIC3064-AD96 and
FDIC RIN3064-AD97

Dear Mr. Feldman:

This letter is written in response to the proposed Basel III Notices of Proposed Rulemaking issued in June 2012 requiring all banking organizations to comply with Basel III pronouncements and standardized approach NPR.

As a community banker, I would like to emphasize that I am in favor of strengthening the quality and loss absorption safeguards in the financial institutions sector. Bridgewater Savings Bank has more than 10 percent tier 1 capital, risk based capital of over 17 percent and a strong loan loss reserve. Our bank has remained profitable during the economic downturn continuing to add to our capital base. Based on what is being proposed we will have no problem meeting the proposed increases in minimum capital requirements. There are several areas that are troubling.

A major area of concern for our bank is the inclusion of gains and losses on available-for-sale debt securities in the tier 1 computation. We currently have a $150 million dollar bond portfolio which is actually down from the beginning of 2012 where the portfolio was over $175 million. Gains on this bond portfolio currently stand at over $3 million. Our bank has a conservative investment philosophy. The investments have little risk of loss but are subject to interest rate risk, which is managed very well. Shock testing our bond portfolio by a 400 basis point increase would create over a $3.5 million dollar change in the market value adjustment and dramatically decrease our capital under Basel III. A reduction in capital will result in reduced lending capability and regulatory scrutiny.

An additional area of concern would be the reduction of our legal lending limit. As our capital declines the amount the bank can lend to a borrower will be affected, as our best commercial loan customers often borrow close to our legal lending limit. This could leave the bank vulnerable to losing key customers to a larger financial institution and reduce our profitability which diminishes our ability to replenish our capital.

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A further concern addresses the capital change in capital requirements on mortgage servicing assets. Our bank presently services and sells loans in the secondary market. Mortgage servicing provides a way to produce income that is based on our customers desire to have their mortgage serviced locally rather than at some distant address where the mortgage is serviced by a large financial institution.

We closed over $115 million in residential mortgages for people living in southeastern Massachusetts in an area of about ten communities. The proposal to increase the risk weighting for residential mortgages threatens to significantly reduce or even move our bank away from what is a very important business segment.

Our bank has very strong underwriting and has seen minimal loss on residential home loans. We believe community banks are being forced to pay dearly for the mistakes and sins of others. The new capital proposals relative to the risk weighting of residential mortgages are higher in many cases than other loan types that are much riskier. This one section of the proposal will definitely reduce the number of loans that we are able to provide in our market.

The change from assigning “risk weightings to asset classes” to assigning “risk weightings to individual loans” will create an administrative burden. This could create a full time position just to assign and maintain risk weightings on the classes of loans indentified in the proposal. This risk weighting does not stop when you book a loan, you will have to continually re-evaluate the risk weighting based on changes in collateral values, payment status and other risk factors.

The requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential loans sold in the secondary market would cause our bank to set aside capital on a loan sold and for how long? Some of the reps and warranties in our correspondent contracts as they relate to fraud, misrepresentations or later identified deficiencies in underwriting are considered life of the loan reps and warranties. In the past five years we have sold over $500 million in loans. The impact to our capital would be significant. This could place a bank in a capital deficient position it might never recover from.

The reps and warranties that refer to early default or premium refund clauses do not subject a bank to repurchase the loan. Our only liability would be to refund the premium we earned along with a processing fee. The rule seems to state the bank would have to maintain capital for 100% of the loan versus the actual liability. The capital required should only be on the lower amount of the liability which is the actual risk the bank is assuming. Over the past five years our bank has not had to repurchase a single loan. The rules regarding mortgage lending threaten to drive a number of banks away from the mortgage banking business. The proposal more than likely will shift a large part of the mortgage business to the large banks. Clearly this cannot be what is intended.

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The change proposed in the risk weighting of home equity and second mortgages to compensate for a "higher risk" could discourage banks from making any kind of home equity loan. We have more than $16 million in home equity loans to customers in our market. The Bank has provided equity loans for quite some time with very low loss on this type of loan. Our pricing and loan to value requirements are built to compensate for the risk of being in second position. When done properly this form of loan is a profitable segment of the loan portfolio. Banks will have to think about whether or not to continue or discontinue making equity loans with the proposed capital requirement.

We have been very fortunate to have few loan delinquencies but there were higher amounts in prior years due to economic conditions. My concern is that banks have adequately provided for losses in the loan loss reserve for current and past due loans. To me, having an additional capital requirement for past due loans is setting aside capital twice. The risk of loan loss should continue to be managed through the loan loss reserve and not by adding an additional capital requirement.

In conclusion, the proposal as it is currently written will greatly impact our bank. There is no way to ascertain the full impact on our bank because the amount of work that we will need to undertake to fully understand the rules, train our staff on how to apply the rules to our balance sheet, code each loan in our portfolio with the required risk weights, have our core processor reprogram our processing software to handle the new requirements and then create reports to allow us to analyze the data. Outside resources will most likely be required for us and other community banks to work through the implementation process to be sure that we have accurate data to report and assure our staff fully understands how to properly code each loan.

All of the new capital requirements will impact a bank's earnings. How banks respond to a reduced bottom line will cause many to exit certain loan types and potentially result in cuts in staffing. The impact to the community banks is truly significant. I strongly urge you to consider the impact with an exemption for most of the community banks in this country from the vast majority of these rules.

Sincerely,

James C. Lively

James C. Lively
President and CEO of Bridgewater Savings Bank, Raynham, MA 02767

Cc: Senator Scott Brown
Senator John Kerry
Congressman Stephen Lynch