



# INSTITUTION FOR SAVINGS

BUILDING STRONGER COMMUNITIES TOGETHER SINCE 1820.

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

Re: Basel III Capital Proposals

To Whom It May Concern;

Thank you for the opportunity to provide comment on the Basel III proposals<sup>1</sup> that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

The Institution for Savings in Newburyport and its Vicinity ("the Bank") is a \$1.4 billion State Chartered Mutual Bank established in 1820. We have six full time branches in addition to 3 high school branches serving the north shore of Massachusetts. We further service the community through our Institution for Savings and 2 Depot Square Ipswich charitable foundations. As of September 30, 2012 the Bank reported a tier one leverage ratio of 12.49%, a tier one risk based capital ratio of 22.07% and a total risk based capital ratio of 23.60%.

Preservation of capital has always been the driving philosophy of the Bank and our long term goal is to maintain capital ratios well above the minimum. We recognize the importance of strengthening the industry's overall ability to absorb loss; however we also believe that additional burden should not fall on the community banking industry. Most community banks did not participate in risky leveraging activities and subprime lending that lead to the financial crisis and the depletion of capital levels in the industry. The capital constraints imposed by the implementation of Basel III would restrict community banks ability to lend which would seem to contradict the measures taken by the Federal Reserve to maintain low interest rates to incent consumers to borrow. Additionally further capital requirements would be particularly harmful when avenues for community banks to raise capital such as Trust Preferred have been eliminated. For these reasons we believe community banks should continue to function under the Basel I framework for calculating their capital requirements.

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<sup>1</sup> The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

We have several areas of concern over the proposal not only for our Bank but also for the community banking industry as a whole.

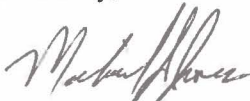
The first area of concern is the inclusion of the unrealized gain or loss on available for sale securities in the common tier one capital calculation. We reported an equity portfolio with a book value of over \$126 million, a fair value of \$141 million, and an unrealized gain of \$15 million at September 30, 2012. The inclusion of the unrealized gains on available for sale securities in the common tier one capital would increase our Bank's tier one leverage. However fluctuations in market value would make monitoring bank policy limits based on common tier one capital difficult and unpredictable. Furthermore the proposal would influence the Bank to classify any debt securities purchased in this low rate environment as held to maturity. This would have a negative impact on the Bank's liquidity position, potentially hindering the ability to lend.

Additionally the increase in risk weighting from 100% to 300% on publicly traded equity securities is excessive. Our equity portfolio is comprised of highly rated strong yielding holdings, some of which we have held for decades. It has provided a steady stream of tax beneficial income that has been a key long term component of our capital growth. It has also allowed us to fund our charitable foundations through donations of appreciated stock. These foundations have allowed us to give back millions of dollars to the surrounding communities through donations to local charities over the last several years. The change in risk weighting from 100% to 300% would not only make it burdensome to maintain an existing portfolio, it would also hinder us from investing in the only decent yielding asset alternative to loans available in this low rate environment. **Furthermore arbitrarily including an entire asset class into one risk weighting category is neither reasonable nor consistent.** The equity market is diverse and wide ranging from high risk penny stocks to low risk blue chip investments. There is quite a difference in risk between owning stock in stable companies such as Johnson and Johnson and Walt Disney Co than risky IPO's such as Facebook. Debt securities range from 20% to 100% risk weighting; consistency would dictate that equities be weighted in the same type of manner.

The change in risk weighting based on loan to value on residential mortgage loans is potentially burdensome and costly. As is the practice with most banks we do not require annual appraisals on performing residential real estate loans. Additionally the Bank's loan processing system is not capable of taking into consideration secondary liens when calculating loan to value. For these reasons loan to value produced by our loan processing system would be misstated. Determining accurate loan to value would involve added cost for updated appraisals and additional software.

In conclusion, the Bank therefore believes that the proposals discussed above would potentially negatively affect community banks and weaken the local economies they serve. We strongly recommend that you consider this impact and exempt the community banking industry from the majority of this proposal.

Sincerely,



Michael J. Jones  
President and Chief Executive Officer