October 15, 2012

Think
MUTUAL BANK

TO: Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution
Avenue, N.W. Washington,
D.C. 20551

Office of the Comptroller of
the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance
Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

RE: Comment Letter on the proposed Basel III Regulatory Capital Rules – Docket ID OCC-2012-0008, 0009, and 0010.

Ladies and Gentlemen:

Think Mutual Bank appreciates the opportunity to submit this letter to the Department of the Treasury, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System.

About US

Think Mutual Bank is a $1.5 billion highly capitalized mutual savings bank. We are primarily a retail bank with mortgages on our balance sheet totaling approximately $659 million. In the current interest rate environment, we continue to sell 30 year loan production to keep the interest rate risk off of our balance sheet. In a more "normal" environment, our balance sheet mortgage portfolio would be at higher levels. In addition, we are continuing to prudently grow our commercial portfolio as appropriate opportunities become available.

We intentionally operate at high capital levels. Under the proposed rules, our Tier 1 Leverage Capital and Tier 1 Risk Based Capital ratios as of 6/30/12 would be 13.99% and 22.1%, respectively. At these high levels it is difficult to argue how the rules would presently have a significant impact on our bank; however, we are very concerned and request your consideration regarding several items including the:

- Appropriate risk rating of balloon mortgages
- Inclusion of OCI in Tier 1 Capital
- Overall impact on administrative burdens
- Mutual Bank Impact

Risk Weights of Residential Balloon Mortgage Loans

We believe balloon mortgages should be included in the category 1 group for risk weighting purposes. The risk inherent in a balloon does not warrant the dramatically higher risk weightings in the category 2 group. Our balloon mortgages are underwritten to the same standards as the mortgage loans in category 1 and the bank controls the optionality by being able to refinance the loan internally as the balloon term ends. These balloon mortgages offer a shorter duration for IRR, are positively viewed from a regulatory perspective, and in many cases are the best option for a first time home buyer, yet they are risk weighted much more severely than a traditional 30 year mortgage.

We have approximately $138mm of balloon mortgages on our books that would be considered a category 2 risk weight with a weighted average risk weight of 111%. These loans would have a weighted average risk weight of 51% if they were a category 1 risk weighted asset. The inclusion of these balloon mortgages as category 2 assets increases our risk weighted assets by $83mm, thereby decreasing our risk weighted capital by 218bp. This is a harsh penalty for a very good asset, virtually equivalent to a 30 year mortgage.

Inclusion of Other Comprehensive Income in Tier 1 Capital

The inclusion of OCI as Tier 1 capital has the potential to create considerable swings in a bank's capital ratio if there are significant changes in interest rates or credit spreads. In our current situation with positive OCI, the inclusion of OCI in Tier 1 capital increased our Tier 1 Leverage Capital ratio by 30bp and our Tier 1 Risk Based Capital Ratio by 52bp, given a constant denominator in the ratio calculations (constant assets and risk weighted assets between the existing and proposed methods). Under a 200bp shock scenario with a constant denominator, the Tier 1 Leverage Capital ratio and the Tier 1 Risk Based Capital ratio decreased by 102bp and 162bp, respectively. These types of swings in capital create concern and can influence loan growth strategies. While this swing is not threatening our regulatory capital rating as we are so highly capitalized, it can sway our internal thinking given our strategies of operating at high capital levels.

There are many inherent problems with OCI. While the inclusion of OCI may have been intended to shed more light on the liquidation "cushion", it only clouds the picture. OCI doesn't include the rest of the balance sheet (loans and deposits) and in fact doesn't even include the held to maturity category of investments. Thus it only goes part way. Complete market valuation of the entire balance sheet is virtually impossible for most community banks, rendering the inclusion of OCI as misleading.

Administrative Burdens

The new rules introduce more administrative burden in the everyday jobs of a community banker. Frankly, we believe these proposed regulations had the opportunity to simplify instead of complicate the capital requirements. We believe there cannot be a "bright line" test to understand the health of a bank. In fact, the CAMELS methodology recognizes this. Capital is just one portion of the rating. A bank at a capital ratio of 10% may be more healthy than a bank at 11% depending on other risks at that bank. The point is, over complicating the calculation simply leads to more arguments as to the intricacies of the calculation versus the overall health of the institution. Introducing more complex rules increases administrative costs that are becoming increasingly difficult to recover at community banks.

Mutual Bank Impact

For the Mutual Banks as a group, we also believe the increased capital requirements can be prospectively prohibitive due to our virtual inability to raise capital without changing our business philosophy.

We appreciate this opportunity to share these comments on the proposed capital rules.

Sincerely,

Dal Beck

Daniel Beck
Senior Vice President, Chief Financial Officer
Think Mutual Bank