BankFive

October 22, 2012

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@occ.treas.gov

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Delivered via email:
regs.comments@federalreserve.gov

Re: Basel III Regulatory Capital Proposals

Ladies and Gentlemen:

Thank you for allowing us the opportunity to provide comment on the Basel III regulatory capital proposals.

We support increased capital requirements to provide greater stability to the country's banks; however, we are concerned that the current proposals will have a profound adverse impact on community banks, customers and on the communities that we serve.

BankFive is a $716 million mutual savings bank located in the south coast area of Massachusetts. We are a 13-branch community bank with a 157 year history of serving the banking needs of our market area, which consists primarily of low-to-moderate income households. Our business model is simple, gather local deposits and lend those funds to local consumers and small businesses. Our mutual charter allows us to take a long term view in providing the best products and services to our customers, without the quarterly earnings pressures of stock corporations. The bank's capital growth is solely through earnings. It is considered well capitalized under current regulatory standards with a 9.61% Tier 1 Leverage Capital ratio and a 14.43% Total Risk Based Capital ratio. In general, we do not have the ability to raise capital other than through earnings.

Corporate Office
79 North Main Street
Fall River, MA 02720
Tel 774 - 888 - 6100
Toll Free 800 - 679 - 4420

BankFive's 180 employees volunteer their time to work with more than 100 local non-profit organizations and in many cases serve leadership roles in these organizations. The bank is also a substantial financial supporter of local charities. This has become even more critical as manufacturing jobs have been lost and local unemployment exceeds 11%. Over the last 20 years, plant closures, business consolidations and bank acquisitions have significantly reduced the available pool of financial and human resources to the local communities we serve. Local bank conversion to stock entities has ultimately resulted in acquisition by larger banks based out of the area and reduced commitments to the local area. BankFive is committed to remaining a mutual savings bank, dedicated to meeting the needs of local consumers and businesses. This is especially important as the majority of the bank's branch offices serve low-to-moderate income households.

Several of our specific concerns with the proposal are:

1. Increased risk weighting for residential loans

BankFive has been a residential mortgage lender for more than 100 years. The bank has not engaged in "subprime" lending and has consistently maintained high underwriting standards. The new proposals relative to the risk weighting of residential mortgage loans have no relationship to our historical experience with residential mortgage lending risk. When the new capital proposals are combined with those from the Consumer Financial Protection Bureau, all community banks will be forced to reexamine the role that residential lending has in their core business model. The most likely impact is that fewer residential loans will be available in our communities.

Although unclear at this point, the administrative process of assigning risk weightings to individual loans and to asset classes at loan inception and regularly thereafter, appears to be unduly burdensome and costly. The current allowance for loan and lease loss (ALLL) system appears to work well. This bank has invested and continues to invest substantial resources to expand its ALLL methodology in response to the rapidly changing regulatory and accounting guidelines.

2. Credit enhancing representations and warranties on 1-4 family residential mortgage loans that are sold in the secondary market

As is the practice with most financial institutions, this bank's ALCO strategy includes selling its longer term fixed rate loans and retaining adjustable rate loans in its portfolio. Fixed rate loans are generally sold to either FNMA or to the Federal Home Loan Bank. Loss and default rates have been low and rarely has the re-purchase of a loan been necessary. The financial impact from the proposed representations and warranties is unclear and we recommend that further clarification be provided. On the surface it appears that the proposal would restrict the availability of fixed rate home mortgage loans to consumers.

3. Change in risk weighting for home equity and second mortgage loans

BankFive has a $37 million portfolio of fixed and variable rate home equity loans and second mortgages. Similar to the performance of the bank's residential mortgage portfolio, delinquencies and losses in this portfolio have been minimal. Proposed risk weighting of up to 200% would be inconsistent with portfolio performance and would force the bank to reconsider its loan portfolio allocation to this important consumer product. The likely result is that fewer loans would be available to consumers. As a key provider of loans to customers in our market area, this would have a significant negative impact to the communities we serve.

4. High Volatility Commercial Real Estate

The proposal to increase the risk weighting has merit given the historic risk associated with these loans. We would strive to meet the proposed exceptions with the 100% risk weighting. However, the local impact of this provision will likely be less financing for ADC projects.

5. Delinquent loan risk weighting

The proposal to increase risk weighting on delinquent loans appears to be redundant. Delinquent loan risk is managed through the banks ALLL methodology, which considers delinquency, loss history and internal and external factors. The risk matrix is reviewed regularly and additions made as necessary. Maintaining both a reserve and higher risk weightings is, in our opinion unnecessary.

A consequence of this proposal is that community banks that typically work closely with borrowers experiencing financial difficulty will have a financial disincentive to continue that practice.

6. Inclusion of accumulated OCI in Tier I Capital calculation

Given the current low interest rate environment many banks have material gains in their investment portfolios. This proposal would initially increase regulatory capital; however, as rates rise, capital will erode quickly and overall would lead to greater volatility. Banks may choose to hold more investments to maturity rather than available for sale, adversely impacting the banks liquidity.

Overall, the proposed regulatory changes will undoubtedly increase bank costs in terms of personnel and staffing, while reducing the availability of loans to area consumers and businesses. This will lead to a reduction in earnings and, especially for a mutual savings bank, will reduce their ability to grow. We believe that the increased cost of compliance will drive further bank consolidation which will reduce the number of local banks supporting their communities.

Community banks have historically been the strongest supporters of local consumers, small business and local charities. The proposed regulations will have a significant adverse impact on community banks and we urge that community banks be exempt from these regulations.

Thank you for your consideration.

Sincerely,

William R Eccles, Jr

William R. Eccles, Jr.
President & CEO

CC: Senator John F. Kerry
Senator Scott P. Brown
Congressman Barney Frank
Congressman James McGovern