LowellBank

15 Hurd Street · Lowell, MA 01852
Direct: 978.458.4598 | Fax: 978.458.7949
www.lowellcoop.com

October 22, 2012

Jennifer J. Johnson Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 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, DC 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment 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 (collectively the "banking agencies").

I am the President and Chief Executive Officer of Lowell Cooperative Bank (LowellBank), a $183 million State Chartered Cooperative Bank located in Lowell, Massachusetts. Our primary business focus is meeting the needs of our business community with a wide range of commercial, deposit and credit products. In addition, we have a substantial residential mortgage division that generates in excess of $1 billion in residential mortgages annually, primarily in Massachusetts, New Hampshire, and Rhode Island.

The Basel III Standardized proposal will have a significant negative effect on community banks and specifically LowellBank. The increased burdens of the Basel III proposals are numerous and I would like to bring to your attention one of the proposed changes and the impact it would have on our organization, employees, and community.

Under the Basel III Standardized proposal, if a banking organization provides a credit enhancing representation or warranty on assets it sold or otherwise transferred to third parties, including cases of early default clauses or premium-refund clauses, the banking organization would treat such an arrangement as an off-balance sheet guarantee and apply a 100 percent credit conversion factor to the transferred loans while credit-enhancing representations and warranties are in place. Under the current general risk-based capital framework, risk based capital charges do not apply to mortgages once they are sold to third parties, even where the seller provides representations

15 Hurd Street • Lowell, MA 01852
Direct: 978.458.4598 | Fax: 978.458.7949
www.lowellcoop.com

and warranties to take back mortgages that experience very early payment defaults (*i.e.*, within 120 days of sale of the mortgages).

Under the Basel III Standardization proposal, the elimination of the current 120-day safe harbor provided by credit enhancing representation or warranty, would have significant impact on our organization. Currently, LowellBank has this protection of the 120-day safe harbor when selling residential mortgage loans into the secondary mortgage market. This protection has allowed us to grow our residential loan business, build earnings and capital, and to service the consumer with the purchase or refinance of their home.

The proposed elimination of this particular safe harbor protection would significantly impact the capital that our organization would need to operate our mortgage lending business. LowellBank generates approximately $90 million a month in sold residential mortgages. This translates into $360 million in loans that would have an impact within the currently provided 120-day safe harbor. Our small community bank would need an additional $18 million in capital to continue this line of business under the proposal. The burden of raising this magnitude of additional capital, in this poor economic climate would be a challenge, if not impossible.

If this provision of the 120-day safe harbor is eliminated, LowellBank will exit the mortgage lending business, which would result in excess of $1 billion dollars in residential loans being eliminated from the marketplace. This translates into over 4,000 customers needing to seek alternative methods of securing a mortgage. In addition, the 180 LowellBank employees, working within this business, would not be needed and therefore their position would be eliminated, causing them personal hardship that would trickle down into the communities that we serve. The elimination of this safe harbor would clearly have a negative impact on the consumer and our communities. If other institutions follow suit and exit the residential mortgage business, the impact would be far reaching for the consumer as well as the economy.

In summary, the removal of the 120-day safe harbor will have an effect on the profitability of our organization, the ability for us to retain and build capital, less choices in the market place for the consumer, and the negative financial effect it would have on our employees who would be separated from our organization. For the reasons above, I recommend that the Basel III Standardized proposal does not eliminate the credit enhancing representation or warranty on assets (120-day safe harbor) and be maintained for the protection of the residential mortgage lending business, the consumer and organizations like ours.

Sincerely,

R. E. Bolton

Richard E. Bolton, Jr.
President & Chief Executive Officer