INDEPENDENT
BANK CORP.
Parent of Rockland Trust

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

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

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

Re: Basel III Capital Proposals

Ladies and Gentlemen

Independent Bank Corp. appreciates the opportunity to provide comments and observations on Basel III proposed capital rules. Independent Bank Corp. is a publically traded bank holding company {NASDAQ: INDB}. Independent's sole bank subsidiary, Rockland Trust Company, currently has approximately $5.1 billion in assets and serves communities throughout eastern Massachusetts and Cape Cod through a network of 67 branch locations.

We respect the regulatory agencies goal to strengthen the safety and soundness of the US Banking system through higher capital levels with a more comprehensive regulatory capital framework. We are generally aligned with this objective. Our concerns with the proposal as drafted are in the consequences we see to our bank in two primary areas:

1) Capital availability for community banks
2) Capital volatility and its impact on lending

Capital availability for community banks

We understand the agencies rationale for eliminating Trust Preferred from Tier 1 capital. For all of its weaknesses, Trust Preferred provided a means to grow the balance sheet with cost effective regulatory capital. The proposal suggests two forms of capital will now compose Tier 1 Capital – common equity and non-cumulative perpetual preferred. The latter instrument is certainly available to larger financial institutions, but is not yet readily available to small and mid-sized community banks, is not deductible for tax purposes, and is quite expensive. Common equity is generally available and comes at an even higher cost of capital.

Investors are attracted to bank stocks, in large part, due to the return on capital generated. Realistically, small and mid-sized community banks will resort to common equity to fill Tier 1 capital requirements and as a result will likely experience a competitive disadvantage in the cost of capital to larger financial institutions and, consequently, in attracting investor capital. A higher cost of capital at community banks and lower returns will make investors less interested in the sector and result in less capital availability. Less capital implies lower lending.

Rockland Trust Company provided loans to its communities, stimulated economic activity throughout the recession and played its role in filling the lending void left by the larger banks. From year-end 2007 through 2011 Rockland Trust grew its outstanding loans from $2.0 billion to $3.8 billion, an increase of 90%. Excluding acquisitions, the loan portfolio grew by a very respectable $650 million, or 32%.

Pro-forma for a soon to be closed acquisition, Independent Bank Corp will have approximately $70 million in Trust Preferred outstanding. Simply applying a 10 to 1 leverage, the elimination of Trust Preferred in our capital structure would eliminate $700 million of lending – or the entire growth in lending achieved since 2007. As proposed, the annual elimination of 10% of our Trust Preferred beginning in 2013 will remove $70 million of loan growth for each of the next 10 years.

We ask you consider the increased challenge of capital availability to community banks in your rulemaking and maintain Trust Preferred as a viable source of Tier 1 capital.

Capital volatility and its impact on lending

The proposed rules include the unrealized gains and losses on available for sale securities in regulatory capital. Our position is that the previous regulatory rules that excluded these gains and losses from capital were prudent and balanced. The new proposal, as drafted, will require banks to hold a greater capital buffer to account for the inevitable volatility caused by changes in interest rates.

Rockland Trust maintains a modest securities portfolio of approximately $500 million, or 10% of assets. Of that amount $323 million is available for sale, 93% is contained in US Government or GSE securities, and includes a mark-to-market gain of $11.4 million. The proposed rules would add the after-tax amount of $6.8 million to regulatory capital.

Shocking the value of this portfolio in a rising rate environment up 300 basis points would result in an after-tax mark-to-market loss of $7 million, resulting in a swing in regulatory capital of $14 million. The inevitability of rising rates will cause Rockland Trust to build additional capital to cushion against this volatility resulting in less capital available to lend in the communities we serve. Using a similar 10 to 1 leverage as above would result in $140 million of lower credit availability.

Rockland Trust maintains a portfolio of cash-flow hedges that fix the cost of certain liabilities. The proposed rule, while requiring gains and losses on available for sale securities to be included in regulatory capital, does not allow similar treatment for these cash flow hedges.

Rockland Trust, as discussed above, has a mark-to-market gain on its available for sale portfolio of $6.8 million after-tax. Rockland Trust maintains a macro balance sheet portfolio of cash flow hedges which had an after-tax mark-to-market loss of $11 million for the same period. The uneven application of the proposed rules will include the gain, but not the loss. The fair value of these hedges moves inversely with the fair value of available for sale securities. The proposed rule exacerbates capital volatility and penalizes banks that use these tools to prudently manage interest rate risk.

We propose the regulatory agencies rethink the unevenness of this approach and remove the volatility in capital associated with the securities portfolio in the proposal.

Finally, we ask the regulatory agencies consider the cost of complexity. The proposed rules add yet another library full of rules, calculations and complexity and result in greater resource expenditure on bookkeeping and less on customer facing economically productive activity.

Sincerely,

Denis Sheahan
Chief Financial Officer
Independent Bank Corp. Parent of
Rockland Trust Company