The Savings Bank

24 September 2012

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, S.W.
Mail Stop 2-3
Washington, D.C. 20219
Delivered via email: regs.comments@occ.treas.gov

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@federalreserve.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently approved by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency.

The Savings Bank is a $450 million, state-chartered mutual bank established in 1869. We currently have eight branch locations and we provide Trust and Wealth Management services through our subsidiary, First Financial Trust, N.A. (a limited purpose trust company with assets under management of $350 million, chartered by the OCC and established in 1989). As of August 31, 2012 The Savings Bank (consolidated) had Tier 1 Leverage Capital of 11.02%; Tier 1 Risk Based Capital of 17.48%; and Total Risk Based Capital of 19.27%.

We are in favor of strengthening the quality and loss absorption safeguards in the financial institutions sector. The Savings Bank's intention is to hold capital above the minimum required levels. While we support proposed levels of capital, several areas are troubling, and in our case perhaps unworkable as we are a mutual bank with limited access to capital. In fact, our capital increases only through the retention of earnings for the most part. Community banks, like The Savings Bank, had little to do with the recent economic collapse which was largely created by the misuse of sub-prime loans made primarily outside the banking system and securitized by large investment banks and lenders. We are familiar with our clients and the risks of lending to them.

A major area of concern is the inclusion of gains and losses on available-for-sale securities in the common equity Tier 1 computation. Currently, The Savings Bank has a $80.3 million bond portfolio (U.S. Treasuries, U.S. Agencies, GSE-issued MBS product, and high quality corporate bonds) with approximately $2.1 million in unrealized gains and an average portfolio maturity of three years and four months). Additionally, we have an equity portfolio with a book value of nearly $14 million with approximately $5.3 million in unrealized gains. This equity is comprised of high quality dividend paying stocks. We do not have significant concentrations by industry or by issuer.

In the case of our bond portfolio the impact in a "rates up 300 basis points" would be significant and could, in effect, wipe out our current earnings. This despite the fact that our portfolio's maturity is quite short. It should be noted that our bond portfolio in 2003 was $233 million in size (with a similar average maturity). Since that time we have been successful in reallocating maturing proceeds to increased loan demand (both residential and commercial).

In the case of our equity portfolio (which we have maintained since the early 1900s) we have never had unrealized losses even in the most significant market downturns. The dividends on these equity holdings are favorably taxed both through the dividend received deduction (federal) and through our use of a Massachusetts security corporation. The current yield on this equity portfolio, pre-tax, is 5.51%.

In our case, higher risk weight outcomes could include:

- An avoidance of market swings (debt) by shortening up the maturity of the portfolio which means lower yields and lower earnings;
- Given the recent downgrade of our Nation's debt and the precarious position the federal government holds, a further downgrade would have enormous implications for our capital position;

- Non-recognition of the tax effect on both gains and losses which would distort the true gains or losses as they relate to capital;
- A reclassification of "available-for-sale" to "held-to-maturity." Liquidity and liquidity ratios would be distorted. Further, with regard to our debt portfolio shrinkage since 2003, some of the funds rechanneled into loans may not have been available. Further, our ability to manage the bond portfolio with regard to liquidity, earnings, and interest rate risk would be lessened significantly;
- Taking equity portfolio gains, increasing capital with one-time transactions, and losing the positive tax effect on our overall earnings for years to come;
- A 300 percent risk rate on equity securities is beyond punitive and makes little sense (i.e. how can a loss on an equity security exceed 100 percent of the book value?).

We also question the limitation of 1.25% of risk-based assets in the loan loss reserve. Why would limitations be placed on an allocation of capital that serves as a "capital preservation buffer"? Banks should be encouraged to build reserves with pre-tax dollars during good times. Additions to the loan loss allowance should be encouraged, not discouraged.

The proposed rules regarding residential mortgages will make mortgage loans more difficult to obtain in many markets such as those served by community banks. Mortgage loans held on our books (generally adjustable rate loans) are used as a tool to manage interest rate risk. We cannot "afford" to hold 30 year loans, especially in this interest rate environment, due to the inherent interest rate risk. Requiring higher risk rating of adjustable rate loans requires more capital, increases the cost of the credit, and will serve to reduce the availability of credit. Over the past fifteen years we've made $21.4 million in loans to first-time home buyers – all adjustable rates because of the expected holding time of the home and the general level of interest rates where ARMs have usually had lower APRs.

The Savings Bank is also actively engaged in home equity lending (a $4 million portfolio on lines of $14.2 million). The risk rates of up to 200 percent are punitive and will restrict availability of credit and increase the cost of that credit.

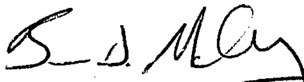
We also feel that increasing the risk rates on delinquent loans is redundant. Delinquent loans must be considered in the Allowance for Loan and Lease Loss analysis. Community banks are already highly regulated in this area and are criticized severely if we do not adequately recognize the need for capital to mitigate these possible future losses. Further, this could impact our aggressiveness in moving loans that become ninety days past due off the balance sheet. This reduces our willingness to work with a borrower to remediate the issues and, hopefully, allow them to stay in the home. In short, this redundancy is unfair and unnecessary.

The scope of the proposed rules will require the collection and reporting of new information in order to calculate the risk weights for The Savings Bank. We will likely either need to acquire new software or outsource the project to a third party. Either way, the proposed rules will cause us to incur new costs and greatly increase our regulatory burden.

Finally, The Savings Bank believes that the cumulative effect of each of the items discussed above will have a significant impact on most of the community banks in this country. We strongly urge you to consider this impact and to consider a possible exemption for most of the country's community banks from the bulk of these rules. The Savings Bank's goal, and that of all community banks, is to continue to serve our communities and to strengthen our local economies.

Thank you for your consideration.

Sincerely,



Brian D. McCoubrey
President and Chief Executive Officer

CC: Senator John Kerry
Senator Scott Brown
Representative John Tierney