Washington
SAVINGS BANK
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James B. Hogan
President & Chief Executive Officer

October 22, 2012

Jennifer J. Johnson
Secretary, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

The Honorable Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E. Street, SW
Mail Stop 2-3
regs.comments@occ.treas.gov

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel three proposals that were recently approved by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency. Washington Savings Bank is a $190 million state charted, mutual savings bank, headquartered in Lowell Massachusetts. Our primary line of business is residential lending, focused primarily in the Merrimack Valley area of northern Massachusetts. Since our incorporation in 1892, we have prided ourselves in serving the credit needs of a local community, while at the same time making prudent loan decisions.

I am writing today to express my concerns with the proposed Basel III capital requirements, particularly with respect to the negative impact that such regulations would have on our individual bank and the entire community banking industry. Furthermore, it is not in the best interest of our institution, or the best interests of the banking industry and the national economy to enact regulations which will further constrain the ability of Community Banks such as Washington Savings Bank to continue to make prudent residential mortgage loans. Like many other mutual institutions, we have consistently

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maintained capital levels well in excess of regulatory minimums. Despite the tumultuous economy, our bank has had several years of record loan originations, and we have already surpassed last year's record level originations through the first nine months of 2012. Over the last 15 years, our bank is only had a handful of mortgage foreclosures, and none of those foreclosures involved 1 to 4 family owner occupied properties. We take great pride in our ability to facilitate the credit needs of our local community, and we do so by putting our customers at ease, with products and services that they can understand, and with loan terms that are honest and forthcoming.

We are fully aware of the catastrophic affects on the national and international economies brought on, in part, by the failure of large banks and financial institutions to conduct business in a safe and sound manner, and we support the efforts of the regulatory agencies to enhance the standards of the banking industry, and in particular the mortgage lending business, which prior to the financial crisis operate in a largely unregulated atmosphere. We are all aware of the "too big to fail" institutions, however many community banks are more concerned with the notion of "too small to survive." Community Banks are the fiber and lifeline of communities, both large and small from coast to coast. Community Banks like our's, provide countless hours of volunteer service to our local community, while at the same time acting as the foundation for the local economy of each city and town across the country. We provide a safe haven for individual wealth accumulation; we provide home financing for the average American; and we assist Main Street merchants and small business entrepreneurs in achieving their dreams – through depressions, recessions, and in times of prosperity.

As a small, local institution we know our customers – not because we have new laws that make us do this – but because that is how we have always done business. We know our customers; we know their parents, and their grandparents. Our customer base is multicultural and multigenerational, much like the fabric of our community. In our highly competitive business, we can compete on service, knowledge of customer, and knowledge of service. We take our customers, their business, and the trust they place in our institution very seriously. We were here for them yesterday, we are here for them today and we will be here for them tomorrow.

As a small community bank, we offer many of the same loan and deposit products and services that the large "too big to fail" institutions offer. We share a common goal with our customers; if they are successful, we are successful. Aside from product offerings, our similarities with the "too big to fail" institutions are few. As a mutually owned institution, we have a commitment to our depositors to uphold the legacy that has been passed down for generations to provide prudent and sound banking to everyone in our community. As such, we have never been involved in the kinds of high risk lending that brought about the financial crisis. We have not prayed upon the weak nor have we provided customers financial products and services with the sole intention of maximizing shareholder profit, without any regard for whether that product or service was in the consumer's best interest. Our goal is to keep customers in their home, and when one of our borrowers experiences difficulty, we work with them to find a solution.

We are concerned that the proposed Basel III rules will negatively impact our ability to serve our community.

Community banks such as ours have little or no access to capital markets. In order to survive we need to grow. In order to grow, we need additional capital (even with current capital requirements). Our primary source of capital growth is through organic, retained earnings. Proposed capital calculation requirements (particularly risk weighting) will adversely effect our capital position in a number of ways:

- Increased risk weighting of fixed-rate, long term residential mortgages will definitely limit our bank's ability to offer first-time home buyer programs to those in our community who seek help in attaining the American dream of home ownership. We have been quite successful in providing this type of financing to residents in the community who would otherwise be shut out of buying a home. The lack of consideration given to the existence of mortgage insurance on credits which have a loan-to-value of greater than 80% will only further hinder the ability of the average American to purchase a home. Under even the best of economic conditions, many people find it impossible to provide down payment funds of 20% or more at the time that they purchase a home.
- Mortgage lending is the mainstay of our business as a community bank. In an economic downturn (especially one driven by a volatile real estate market) risk weighting based on outdated loan-to-value ratios, particularly on loans that maintain excellent credit and payment history, is unfair, if not punitive in nature. In addition, increasing the risk rating on delinquent loans is redundant. Delinquent loans are already reviewed regularly by bank management and the Board of Trustees as part of the Allowance for Loan and Lease Loss analysis.
- While we have always maintained a high standard of underwriting, and each loan is underwritten by critical analysis, rather than an automated process. Although the majority of our loans are written to secondary market standards, as our main office is located in a working-class community, it is sometimes necessary to place a loan in portfolio. This is what we would refer to as meeting the credit needs of our community, a community that we live in, work in and understand. We retain the servicing of loans that we originate, and in some instances we hold these loans for a short period of time before sale. Risk weighting these loans held on our books under the proposed calculations will hamper future lending. I find it perplexing that the proposed regulation will likely hamper bank's appetite and ability to lend, at a time when lending is most needed to repair the economy.
- Another area of significant concern that the proposed regulation is the inclusion of gains and losses on available-for-sale securities in the Tier 1 computation. Despite the fact that the majority of our investment portfolio is quite short, inclusion of the gain or loss could severely distort the bank's capital position. Proposed rules would force the recognition of market swings and would create potentially extreme volatility in our bank's Capital.

In our community, I have witnessed firsthand the troubles caused by reckless subprime lending. I am certainly in favor of safeguards for both the consumer and the financial services industry that would prevent a future financial crisis as we have recently experienced. However, I am concerned that the proposed regulations are intended to be "one size fits all." Washington Savings Bank, and the communities it serves will be adversely impacted by this regulation. In addition, the proposed regulation does not delineate between mutual, community banks and large multinational financial institutions. I trust that this regulation was not intended to be punitive in nature, and as president of a bank that has provided financial services to our community since the 1800's, I am concerned that the spirit of the proposed regulation will be detrimental to Washington Savings Bank, many other Community Banks as well as the economy in general. One of the primary missions of community banking is meeting the credit needs of our community, and the proposed regulation while intended to promote safe and sound decisions by the largest of banks, will make this primary mission very difficult. The risk weighted assessments, as proposed, is unfair and destructive to an essential element of American financial services industry – the community bank.

I would respectfully request that prior to the enactment of this regulation, that you thoroughly consider the devastating effects of Basel III on the community banks (and mutual institutions in particular) across the United States; the effects on the American consumer and home buyer; and the impact that it would have on the consumer's access to credit. The survival of community banking as we know it in the United States is essential to the prosperity of future generations.

I thank you in advance for your attention in this matter.

Sincerely,

James B. Hogan,
President & CEO