

October 22, 2012

Robert E. Feldman
Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Delivered via email: comments@FDIC.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, DC 20219
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Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Delivered via email: regs.comments@federalreserve.gov

RE: Basel III Capital Proposal

Dear Sirs:

I am writing on behalf of Reading Co-operative Bank and its Board of Directors in strong opposition to the proposed changes to Regulatory Capital Rules for the reasons enumerated below. Although Basel III was created for larger complex international banks the agencies have chosen to apply these complex rules to small US community banks regardless of their balance sheet complexity. Community banks with their traditional deposit gathering and community based lending programs were not the intended recipient as these rules as drafted.

- 1) Unintended Economic Consequences – The banks that continue to exist today are likely the ones that operated in a less risky manner and continued to meet the credit needs of their communities during the recent deep financial crisis; during that time larger banks reduced credit availability to address their individual liquidity and credit issues. This proposal negatively affects community banks and their customers by:
 - i) Increasing capital costs for portfolio lenders and effectively disadvantaging community banks as compared to unregulated mortgage

lenders not subject to the same capital and in many cases no capital requirements.

- ii) Increasing the cost of home equity loans by increasing the risk weight to 200%; Home equity loan products have long been used by consumers to finance college tuition for their children. FNMA's recent directive limiting payments to second lienholders combined with the risk weighting of first mortgages at the higher risk weight when a second exists by this proposal makes offering a HELOC less attractive/more expensive to originate. Conventional wisdom suggests that it should be advantageous for a first lienholder to hold the second lien for its existing first mortgage borrower, however, this proposal contravenes applying a higher risk weight to first mortgages wherein a second lien is held by the same institution.
- iii) Disadvantaging first time homebuyers who generally have lower downpayments by making LTV the driver for loan quality and increasing capital requirements. This proposal does not recognize Private Mortgage Insurance as an acceptable credit enhancement to mitigate for lower a downpayment limiting credit availability for this class of borrower.
- iv) This proposal assumes that LTV as a credit characteristic predicts performance. LTV is only one measure in credit approval and higher LTV's can be mitigated by other credit enhancements. Furthermore, LTV driven pricing will increase the cost of credit to businesses and consumers. This proposal does not recognize the regular practice of mitigation with credit enhancements.
- v) Commercial Real Estate risk weighting changes will also serve to make lending more expensive, which is counterintuitive during a period when policymakers complain that banks are not lending.

Loan level risk characteristics have always been mitigated through the loan loss reserve. This capital proposal negates the value of a Loan Loss Reserve and one could argue if these capital measures are implemented, the ALLL should hold reserves solely for criticized assets that are collateral deficient.

- 2) Capital Volatility – This proposal makes the capital account, presumably a stable measure of financial security, volatile and distorts capital reporting as follows:
 - i) Community Banks hold investments in Mortgage-backed Securities, Treasuries and other readily trade-able investments as an effort to offset the interest rate risk of holding long term mortgage loans and for liquidity purposes. In today's low interest rate environment, banks currently have gains in their investment portfolios due to artificially low rates created by Fed purchasing activities. As the yield curve steepens, most if not all of these investments will return a loss position which through this proposal must be run through the capital account.

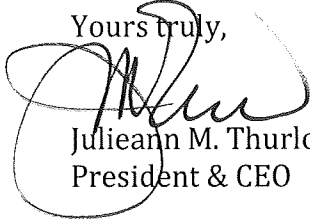
If this proposal is successful, this NPR will lead to higher capital levels in the onset as most banks have gains in their investment portfolios. These will ultimately turn to a loss position when rates rise. Community banks evaluating the future risk to capital would be driven to liquidate these investment assets while in a gain position to avoid a future impact to their capital account. Due to increased margin pressure from the above rate manipulation, re-deployment of these assets would likely be in higher risk, less liquid assets creating a less liquid community banking industry.

- ii) Community Banks selling their mortgages to the secondary market will be impacted by this proposal as it requires that non-cash gains on sales and their respective mortgage servicing rights be deducted from capital. This disadvantages community banks that have chosen to retain servicing on mortgage loans for the purpose of maintaining the close customer relationship it has historically leveraged for additional loan and deposit gathering opportunities. Consumers benefit when their loan is serviced locally.
- 3) Countercyclical reserves - We as an industry should support countercyclical reserve cushions. It is important to note that Banks attempting to supplement reserves during good years were forced in many cases to draw down reserves by the accounting industry. Banks were charged with managing earnings as the actual five year historical loss average did not support the level of reserves the industry was holding.
The agencies should work with FASB to evaluate many of its financial rules to include the potential adoption of International Accounting Standards requiring all instruments be marked to market. The combination of both the Basel III proposal and the adoption of International Accounting rules would be the death knell for community banks, especially those such as ours that are mutual as we can only grow capital through earnings.
- 4) Undue Burden – This proposal has intensive reporting and categorizing requirements. The writers fail to recognize that the new requirements for Qualified Mortgages, strict underwriting rules from the Dodd-Frank Act and the CFPB’s new rule writing efforts are regulatory overkill. Compliances with all of these new rules will strangle a weak economic recovery as bankers focus internally on compliance and paperwork, rather than working to fund lending opportunities that spur economic growth.
- 5) Existing Loan Portfolios – This proposal fails to address whether the existing loan portfolio is grandfathered or if the Bank must re-examine underwriting on all old mortgage files to determine appropriate loan category, LTV ratio and capital allocation.
- 6) Competitive Advantage granted to Credit Unions – Co-operative Banks such as ours in Massachusetts are more closely aligned structurally with credit unions, however, credit unions have been granted an exclusion from these capital rules. In addition to having a tax-exempt advantage (co-operative banks lost their tax-exempt status in the 50’s), credit unions will now have a capital advantage over

community banks. Federal intervention through regulation should not create competitive disadvantages within the same industry.

The above represents the material issues that directly affect Reading Co-operative Bank. This proposal will unequivocally increase the cost of credit while limiting the availability of credit. Many consumers, those most needing and desirous of credit will find it harder to obtain. Most troubling, is that this proposal manipulates the Bank's strategic decision process and makes capital preservation the ultimate driver of every business decision.

Yours truly,

A handwritten signature in black ink, appearing to read 'Julieann M. Thurlow', written over a circular stamp or seal.

Julieann M. Thurlow
President & CEO