METUCHEN
SAVINGS BANK
ESTABLISHED 1897

RECEIVED
OCT 17 2012
OCC
Disclosure Services

October 12, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Mr. Feldman:

The Bank appreciates your time in reviewing the our comments on the recent Basel III proposal that has the approval of the Federal Reserve Board and our regulator the Federal Deposit Insurance Corporation and is open for comment.

It is in the best interest of the banking community that regulators formulate a plan to the increase capital for the future but our Bank does not believe this is the appropriate time. Our Bank has many concerns on how the plan offers to increase that capital. In the course of this communication, the Bank will outline the concerns with the policy as approved.

Metuchen Savings Bank serves the Borough of Metuchen and surrounding towns. The Bank's predominate product is origination of single-family mortgages. It has been serving the community since 1897 and would like to be able to serve the community for another 100 years. In reading your regulation, the Bank is not sure that will be possible.

The current economic market is at best on the edge or worse, out of control. The current low rate interest environment will be with us into early 2015. This pronouncement came from the Chairman of the Federal Reserve in September 2012. At the same time, the Federal Reserve instituted QE 3. If someone had spoken to a community banker before that was implemented, he would have found out that this policy harms community banks.

The first change in the regulation, when you read the proposal, is the inclusion of the unrealized gain or loss on investments that is now excluded from the current calculation. Your date for the implementation of this policy, the year 2015, is the time the Federal Reserve Chairman is suggesting that he may lift the current low rate environment. Currently our GAAP capital is inflated and an increase in interest rates would quickly reverse the gain and have an adverse effect on our capital. To avert this situation, the Bank may be forced to sell its investment holdings and place the new purchases in held to maturity that would materially affect our liquidity.

429 Main Street, P.O. Box 431 • Metuchen, New Jersey 08840-0431 • 732-548-7400 • Fax 732-548-9787
Retail Division 732-549-2111 • Fax 732-549-0109
Mortgage Division 732-549-4452 • Fax 732-548-2099
www.metuchensavingsbank.com

The other change that is quickly recognized in the proposal is to include accumulated other comprehensive income for pension funds. At present this amount is ever increasing due to the low earnings that pension investments are earning.

If both are included in the calculation of capital, as presented in the proposed regulation, they may have an adverse effect on the Bank's capital at any point on time.

As was stated in the initial paragraph, the Bank's main source of revenue is derived from mortgage loans that are originated in the local area. The new capital proposals relative to the risk weighting of residential mortgages are in many cases higher than other loan types that the Bank would consider much riskier in the Bank's experience. This could reduce the number of loans that we would be able to provide in the local community.

The programming and time to grade the loan portfolio on an on-going basis due to changes in collateral value and delinquent status could prove costly.

Another requirement in the policy to hold capital for credit enhancing representation and warranties on 1-4 family loans that have been sold into the secondary market is troublesome. Currently we sell a majority of loans to the secondary market due to the low rate environment. This is helpful when measuring EVE of the Bank. The income generated from servicing would not be an incentive in the face of a large increase in capital.

The Bank believes that regulators are on a mission to destroy community banking with this regulation. Community banks have added all the regulatory initiatives that were inacted over the last few years. This could possibly be the death knell for community banks, which would in effect hurt the communities we serve, create more unemployment which will hurt the economy, and create more "too big to fail" institutions, which was the genesis of this crisis to begin with.

Very truly yours,

Edward P. McGovern
Vice President/Treasurer

EPM/ad
cc: Jennifer J. Johnson, Secretary, Board of Governors FRS
Office of the Comptroller of the Currency