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October 17, 2012

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 e-mail: regs.comments@federalreserve.gov

Robert E. Feldman, Executive Secretary
Attention: Comments / Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Delivered via e-mail: 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 e-mail: regs.comments@occ.treas.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "regulatory agencies").

MountainOne Financial Partners, MHC ("MountainOne") is an approximately $820 million mutual holding company headquartered in North Adams, Massachusetts. Included under the MountainOne holding company umbrella are two community banks, Hoosac Bank and South Coastal Bank (the "Banks"), as well as two insurance agencies and an investment advisory division.

Hoosac Bank has total assets of approximately $535 million and traces its roots back to 1848. Hoosac Bank currently serves the communities of Northern Berkshire County in Massachusetts and surrounding areas by providing services typical of a community bank, including residential real estate lending, small business lending, and deposit services. Hoosac Bank has its main office in North Adams, with two additional branch locations in the neighboring town of Williamstown. Hoosac Bank also has loan production offices in Pittsfield, Massachusetts and Bennington, Vermont.

South Coastal Bank, also what would be considered a typical community bank, has total assets of approximately $285 million and traces its roots back to 1868. South Coastal Bank serves various communities on the South Shore of Boston in Plymouth and Norfolk counties, with branch office locations in Rockland, Scituate and Quincy. South Coastal Bank also has a significant mortgage banking operation, with residential loan production offices in Danvers and Worcester, Massachusetts.

MountainOne and the Banks have always supported strong capital requirements for all financial institutions, including community banks. However, we do have concerns about the Basel III proposals that have been approved by the regulatory agencies and placed out for comment. We strongly believe that applying the proposed rules to community banks and mutual holding companies such as ours will have a crippling impact on our ability to compete effectively and earn a satisfactory return on our capital.

Both Hoosac Bank and South Coastal Bank provide vital services to the communities they serve. The Banks offer competitive loan and deposit products and are a vital source of credit to foster home ownership and to support small business creation and growth. We, like most other community banks in the United States, want to make sure we are able to continue serving our communities like we have for the past 140+ years. However, we have serious concerns that if the proposals are approved as currently written, our ability to compete and thus provide vital credit to consumers and small businesses in our market areas will be severely hampered.

Our primary concerns with the Basel III proposals are summarized as follows:

I. Elimination of trust preferred securities

MountainOne issued $20 million of trust preferred securities during 2007 under a set of rules that allowed us to include these trust preferred securities as a component of Tier 1 capital. The trust preferred securities have allowed us to grow our asset base, particularly our portfolio of residential mortgage loans and small business loans.

Given our mutual holding company structure, our avenues to raise Tier 1 capital are extremely limited, with retained earnings being the primary method of capital generation. The trust preferred securities have been an important, cost-effective source of capital for MountainOne and, in turn, the Banks. The elimination of the trust preferred securities as a component of Tier 1 capital will significantly reduce our consolidated capital ratios. In reaction to the proposed phase-out of the trust preferred securities from Tier 1 capital, we will likely be forced to significantly shrink the Banks' balance sheets (i.e. reduce lending and investing) and/or significantly alter our capital plans and overall organizational structure.

We respectfully ask that the propose rule be revised to permanently grandfather existing trust preferred securities for institutions between $500 million and $15 billion. We believe this is fully consistent with the intent of the Collins amendment of Dodd-Frank Act.

II. Requirement that gains and losses on securities available for sale must be included as a component of regulatory capital

We are currently in an unprecedented period of low interest rates, with various forecasts calling for low interest rates to persist for several years to come. As interest rates eventually begin to rise, the value of our securities will decrease, leading to a decrease in our regulatory capital ratios. Depending on the severity of the increase in interest rates, our regulatory capital position could be significantly impacted by nothing more than a change in the interest rate environment.

As noted above, our avenues to raise capital are extremely limited. Therefore, in a rising interest rate environment, all other factors being equal, we would likely have to shrink our balance sheet to maintain comparable capital ratios. Extrapolated across the entire industry, this proposal could produce a significant amount of cyclicality and volatility into regulatory capital measures and could serve to stall an economic recovery as banks curtail lending in an effort to maintain their capital ratios. In this scenario, our customers, including consumers and small businesses, will likely be negatively impacted by the reduced availability of credit.

It has been suggested that securities could be moved from the available for sale portfolio to the held to maturity portfolio to mitigate this issue. Although this could eliminate the cyclicality and volatility of having unrealized gains and losses flow through to regulatory capital, it would create other issues by limiting our ability to manage our investment portfolio through different interest rate and economic cycles, impacting our overall management of interest rate risk and liquidity risk.

We respectfully ask that this proposal be eliminated so that unrealized gains and losses on securities available for sale continue to be excluded from regulatory capital. At a minimum, we would ask that unrealized gains and losses on highly-liquid, low-risk securities, such as U.S. government, agency and GSE debt obligations (including mortgage-backed securities and collateralized mortgage obligations guaranteed by such entities), be excluded from regulatory capital.

III. Increased risk-weightings for residential mortgage loans, home equity loans and delinquent loans

The Banks provide a significant number of residential mortgages and home equity loans (including home equity lines of credit) to consumers in the communities they serve. These proposals threaten to make these lines of business significantly less profitable, thereby incenting the Banks to limit this activity or potentially driving the Banks, and other community banks, away from these critical lines of business.

Historically, our Banks have had a very manageable level of loan losses on residential and home equity lending. Our underwriting has been very strong, as opposed to many of the non-bank lenders who were the real culprits in the housing crisis. By increasing the risk-weighting on residential and home equity loans, we will be forced to hold additional capital on assets that historically have had a very low level of risk for the Banks. These additional capital allocations will reduce the overall number of loans that we will be able to provide in our markets.

In addition to the issues noted above, the process of categorizing our existing portfolios based on the requirements in the proposal (i.e. determining and updating LTVs, determining which customers have both residential mortgages and home equity loans/lines, etc.) will be a significant administrative challenge, potentially forcing us to increase staffing to properly implement the regulations.

Our Banks have also historically used private mortgage insurance ("PMI") to mitigate the risk of loss on certain loans with LTVs greater than 80%. The proposed rules do not recognize the risk mitigation provided by PMI at all. Given our experience with PMI as an effective loss mitigation strategy, we strongly feel that PMI should be considered in determining the risk profile of individual loans.

The proposals also call for increased risk-weightings on certain delinquent loans. Although loans that are delinquent presumably have a higher level of inherent risk than non-delinquent loans, this risk is captured as part of our allowance for loan losses process. By increasing the amount of capital we must hold for delinquent loans, we are in essence being required to set aside capital in two different locations on our balance sheet for the same risk. If the proposal regarding delinquent loans is adopted, it could have a negative impact on consumers, as banks will be further incented to quickly reduce delinquencies, meaning they may be less likely to pursue otherwise prudent loan workout strategies with delinquent borrowers, including loan modifications.

IV. Requirement to hold capital for credit enhancing representations and warranties on residential mortgage loans sold into the secondary market

We understand that the proposed rules require banks to hold capital for loans with credit enhancing representations and warranties, including for "pipeline" mortgages in the process of being sold to the secondary market. Under the existing capital rules, banks are not required to hold capital against loans with such representations and warranties. Our interpretation is that this new requirement would affect any mortgage sold with a representation or warranty that contains (1) an early default clause, and/or (2) certain premium refund clauses that cover assets guaranteed, in whole or in part, by the U.S. government or GSE.

The Banks conduct significant mortgage banking operations whereby long-term fixed rate loans are provided to consumers and are sold into the secondary market to limit the interest rate risk retained on the Banks' balance sheets. The Banks provide certain temporary representations and warranties to the purchasers of these sold loans should the loans default in the first few months after sale. However, the Banks have almost never had a loan default within this time period and have had no losses associated with providing these limited representations and warranties.

Requiring the Banks to hold significant capital against loans sold into the secondary market that contain limited representations and warranties would be extremely punitive given the lack of loss history associated with this activity. We respectfully ask that the regulatory agencies retain the current 120 day safe harbor for providing these temporary representations and warranties.

V. Requirement to include unrealized gains and losses on cash flow hedges as a component of regulatory capital

MountainOne has used plain vanilla cash flow hedges in the form of interest rate swaps to manage interest rate risk on certain of its floating rate liabilities, specifically the trust preferred securities previously noted. The use of interest rate swaps is a proven, reliable and effective tool for managing interest rate risk, especially given the current interest rate environment.

The unrealized gains or losses on the interest rate swaps are currently excluded from regulatory capital. If we were forced to include the unrealized gains or losses as a component of regulatory capital, it would likely introduce significant volatility into our capital ratios should interest rates change, or the expectation for interest rates change. Should the proposal be enacted, we would have to consider other potentially less-effective methods for managing interest rate risk purely due to the impact the interest rate swaps could have on our capital position.

In conclusion, if the Basel III proposals are passed as drafted, MountainOne, Hoosac Bank, South Coastal Bank and our other affiliates will be significantly impacted. Each of the concerns we highlighted above is likely to either: (1) reduce our calculated capital ratios through a reduction in the instruments that are counted as capital or through increased risk-weightings on various assets, or (2) introduce significant volatility into our capital ratios due purely to changes in the interest rate environment. The anticipated reduction in our capital ratios, combined with the proposed increase to certain of the required capital ratios under the proposals, will likely force us to reduce our balance sheet and in turn curtail our lending activities. If we are forced to reduce our balance sheet and curtail our lending activities, we will also likely have to reduce staff. The combination of these results will have a negative impact on the consumers, small businesses and communities we serve, not to mention the ripple effect that will happen as most community banks across the country struggle with similar issues.

MountainOne and its affiliates are committed to a strong capital position and the fulfillment of our mission to provide our customers with outstanding products and exceptional service in a profitable manner while supporting the growth of our employees and the communities we serve. Community banks like ours are the backbone of many communities in the United States and a key component of the local economies. We strongly urge you to consider the negative impact that the Basel III proposals will have on MountainOne and other community banks and holding companies in this country and consider an exemption from these rules for these institutions.

Thank you for your consideration of our comments.

Sincerely,

Thomas S. Leavitt

Thomas S. Leavitt
President & CEO, MountainOne
Acting President & CEO, Hoosac Bank

cc: Senator John F. Kerry
Senator Scott P. Brown
Representative John W. Olver
American Bankers Association
Massachusetts Bankers Association