CHICOPEE SAVINGS

October 18, 2012

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

Jennifer J. Johnson, Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.,
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219

RE: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action;* and *Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements*

Dear Sir or Madam:

Thank you for the opportunity to provide a comment letter on the Basel III proposals. Chicopee Savings Bank is a community bank headquartered in Chicopee, Massachusetts which has been in existence since 1854 and has approximately $600 million in assets. The primary focus of the bank is to accept deposits and lend those deposits out to the community, providing financing for first-time home buyers, residential and commercial real estate purchases as well as small business lending.

The Basel III proposals were and should be intended for large, sophisticated, international financial institutions competing with others of a similar scale across the globe. It is now being applied to all institutions, regardless of sizes and complexity, under "one-size-fits all" model and poses a significant risk to all small businesses that access credit and will reduce residential and commercial real estate lending.

Community banks did not cause the financial crises and we should not bear the cost and weight of new, overreaching regulations. Many of our customers left the large, complex financial institutions because of their inability to obtain credit during the recession. Community banks, like Chicopee Savings Bank, kept the economy going.

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We have already lost over 11,000 community banks since 1985 and our local communities cannot afford to lose anymore. Community banks have been the life blood of this country but now we are threatened and will suffer for the problems created by the large financial institutions.

Applying the same regulatory capital standards to community banks demonstrate a failure by regulators to appreciate the fundamental distinctions between community banks and the nation's largest banks. Community banks maintain the highest capital levels in the banking industry and should not have to jump through the same regulatory hoops as the largest and riskiest institutions that contributed to the greatest financial crises since the Great Depression.

Compliance with the increase of current and upcoming regulations is and will be taxing community banks for years to come. Local community banks and "too big too fail" complex financial institutions will share in the same capital requirements. Furthermore, it is incomprehensible to have one-size-fits all approach but exempt credit unions. You must exempt community banks just as you exempt credit unions.

The community bankers are not the only ones who think the new capital rules should exempt community banks:

Thomas Hoenig, FDIC Director: "I believe the Committee should agree to delay implementation and revisit the proposal. The United States should not implement Basel III but reject the Basel approach to capital and go back to the basics."

Wayne Abernathy, Executive Vice President of American Bankers Association: That applying the international Basel standardized capital rules to all banks, in a one-size-fits-all manner, is a bad fit for most if not all U.S. banks.

Camden R. Fine, President and CEO of ICBA: "ICBA strongly agrees with the Conference of State Bank Supervisors that the proposed Basel III capital standards are too complex and will drive many traditional community banks out of the mortgage market"

These new capital proposals are an unnecessary and costly regulatory burden that will result in damaging unintended consequences, including, but not limited to further consolidation of the industry. Community bankers recognize the importance of appropriate levels of capital as a key component of a safe and sound bank and banking system. Community banks have a vested interest in a healthy banking system. Required maintenance of adequate levels of capital is good for all banks and the country as a whole and community banks, like Chicopee Savings Bank, are already leaders in maintaining high quality capital. Our concern is the burdensome process and consequences of instituting complex new rules on community banks.

For the very reason that the agencies have proposed these rules –the safety and soundness of the industry –community banks should be exempt from these proposals and allowed to continue to measure capital according to present methodology.

The ever-increasing level of regulatory burden has community bank resources stretched to the limits. These burdens cause us to wonder how big a bank must be to absorb the increasing cost of compliance to survive. These additional new and costly burdens should be a call to the regulatory community that they should be assisting the community banking community in dealing with the regulatory burden rather than piling on additional burdens.

Lawmakers, regulators, and the public all agree that community banks didn't participate in nor profit from the bad behavior that contributed to the financial meltdown. However, the "cure" is making life difficult, if not impossible, for community banks, like Chicopee Savings Bank, to survive. If these proposals are applied to community banks, many will decide that the bombardment of federal law and regulatory overkill has rendered their time-tested business unsustainable.

The ongoing and complex collection and reporting of information on various asset categories required by the proposed rules will further tax the limited resources of community banks. These proposals have proven to be so complex that the regulators provided further information through live meetings, conference calls, an extension of the comment period, and an estimation tool to assist the industry in complying with the new rules. The added cost and time needed to comply with these provisions—without benefit to the bank or the public – are reasons enough to exempt community banks from this proposal.

The agencies' attempts to modify the capital landscape by applying a one-size-fits-all approach for all banks undermines the fact that community banks operate under a very different business model from the larger banks. When reviewing the size, complexity, and scope of community banks, it should be very clear to the regulators that community banks do not have the appropriate resources to be viewed as a large mega bank creating a new series of regulatory burdens in addition to what already exists today.

The historically low interest rate environment has created issues for Chicopee Savings Bank and a number of our banks. Banks will eventually face potentially significant unrealized losses in their securities portfolios. This could easily create scenarios in which a formerly well-capitalized bank could face severe sanctions due solely to market rate movements. Further, the "mark to market" requirement will require banks to hold more capital to compensate for inevitable swings in interest rates, thus hindering growth and lending opportunities. Community banks can't effectively hedge interest rate risk in their portfolios.

Chicopee Savings Bank, like community banks across the country, is a long-term investor, and does not actively trade securities portfolio; therefore, inclusion of unrealized gains or losses in the securities portfolio is only meaningful in a liquidation scenario. The proposed changes ,incorporating market rate swings into Common Equity Tier 1 capital, will result in banks moving to shorter maturities, giving up already dwindling earnings opportunities, experiencing limited flexibility in managing the investment portfolio, sacrificing liquidity by moving securities to the "Held to Maturity" bucket, limiting loan growth, and forgoing expansion.

We must remember that the inclusion of AOCI on the balance sheet is driven by accounting rules that provide for fair value measurement. The proposed inclusion of accumulated other comprehensive income in regulatory capital will introduce undue volatility into community bank regulatory capital calculations. However, community banks manage fair value risk (interest rate risk) on an economic basis through robust asset-liability management with heavy regulatory oversight. In addition to the increased volatility, adding one piece of the asset-liability equation to regulatory capital without fully considering the entire mix of assets and liabilities provides a false sense of capital adequacy. In addition, community banks will need to allocate additional capital to the investment portfolio to ensure that the risks associated with increased volatility are properly covered through additional cushions.

To mitigate the volatility caused by changes in AOCI, some community banks will be forced to hold their investment securities with an amortized cost designation for accounting purposes. Due to the complexity of the accounting rules surrounding these investments, they can never be sold except in the rarest of circumstances without jeopardizing their ability to hold these investments at amortized cost in the future. This action will further decrease available liquidity for the institution while adversely impacting demand for investment securities for all market participants.

Risk Weighting will be challenging, expensive, and a disincentive to mortgage lending, the cornerstone of community banking. Assigning proper risk-weightings to various assets will be an expensive and time-consuming undertaking, which will require additional staff and expensive software. This will serve as a disincentive to mortgage and real estate lending at Chicopee Savings Bank and all community banks, especially loans kept in-portfolio as is common in the community banking model. Particularly harmful to community banks is the punitive impact on all second liens including home equity lines. These loans provide solid financing alternatives to home loan borrowers in underserved and rural communities and play a large role in shaping the local economies of the communities in which the loans are originated. Additionally, community bank lending, which focuses on tailoring loan products to the specific needs of the customer, is a powerful force in small business formation and growth that fuels job creation. As relationship-based lenders, community banks possess the local expertise needed to complete quality underwriting for these loan products and provide forms of financing those larger banks will not offer. Further, the introduction of "High Volatility Commercial Real Estate" (HVCRE), with a 150% risk weighting and limited exemptions, will in our assessment also limit a bank's willingness to make these loans and raise borrowing costs in this already challenged market. Further depressing residential and commercial real estate lending will result in additional harm to the real estate lending market.

If the proposal goes through as written, with all being held on the books at a 50% capital weighting, the community banks will be forced to pull back on production of residential loans. Loans would fall into two categories – "traditional first-loan, prudently underwritten mortgage loans" and junior liens and nontraditional mortgage products. Within those broad categories, banks would adjust risk weightings by loan-to-value ratio. Some clean loan, "plain-vanilla" loans could see weightings below current rule but others could see weightings up to 200%.

Another concern is how private mortgage insurance is ignored. Mortgage insurance currently allows banks to make higher loan-to-value mortgages to borrowers, especially first-time home buyers. Taking this eliminate away, at least as far as capital standards is concerned, may affect who banks can serve in residential lending.

This may force community banks, like Chicopee Savings Bank, to scale back on residential mortgages if changes are not made to Basel III.

Where does the Allowance for Loan and Lease Losses fit into the mix? Specific allocations of capital are made for higher risk, classified, past due and non-accrual loans. However, the proposal does not allow for adequate inclusion of the allowance in the determination of regulatory capital. We must remember that the allowance represents the first line of defense against harmful credit loss and it properly represents an allocation of capital to meet that objective. Yet the proposal continues to cap the allowance while ignoring its importance by not elevating at least some component as higher tier capital. It appears that with the additional capital requirements, perhaps there will be adjustments in the way this important risk management tool is utilized by banks and evaluated by the regulators.

From a macro perspective, this particular point in the economic cycle would appear to be perhaps the worst time possible for regulatory policies that result in disincentives for banks to fund properly underwritten real estate loans. While apparently well-intentioned from all appearances, many of these changes will limit choices and raise costs for the consumer. Further, the resultant increased market share and concentration of residential real estate mortgage loans in the largest institutions is simply not healthy for our economy.

Mortgage servicing assets (in excess of 10% of Common Equity Tier 1) will face new deductions from capital. Further, capital would be required against assets with credit enhancing representations and warranties, including mortgages sold to Fannie Mae, Freddie Mac, and third party aggregators. As previously discussed, this is one more potential hurdle and expense that could impact the cost and availability of mortgages. Additionally, this severe penalty is an attack on the high-quality nature of community bank servicing that ignores the fact that community bank servicers work diligently with borrowers to resolve payment problems to achieve a more favorable outcome for the customer.

Chicopee Savings Bank and the community banking industry are overwhelmed by government regulation, and this proposal unnecessarily piles on additional regulatory burdens. Ultimately, these burdens will lead to higher borrowing costs and diminished availability of both credit and bank services to consumers, small businesses, and local governments. Though this proposal is counterintuitive regardless of the state of the national economy, the current tenuous state of the national economy makes it especially counterintuitive.

The reasonable thing to do is to exempt all but those complex international banking institutions considered "systemically important" from these burdensome, elaborate, and counterproductive capital rules. Community banks should be allowed to continue using the current Basel I risk weightings as they have and will continue to serve banks, customers, and regulators very well.

As a community bank we are concerned and troubled that our own U.S. regulatory authorities would include community banking in these new complex capital rules. Ultimately, a one-size-fits-all approach will not help the U.S. banking system. At a time when the economy needs banks to lend as much as possible, there are significant concerns and questions about how new capital requirements will alter lending profiles of strong community banks.

Thank you for the opportunity to comment on these proposals.

Sincerely,

William J. Wagner

William J. Wagner
Chief Operating Officer
Chicopee Savings Bank

Guida R. Sajdak
Chief Executive Officer
Chicopee Savings Bank