REVERE BANK

October 15, 2012

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

Re: Basel III Capital Proposals

Dear Mr. Feldman:

This letter endorsed by our Board of Directors provides Revere Bank's comments regarding 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 "banking agencies").

The proposal encompasses a wide range of issues many of which do not impact Revere Bank now and potentially will not in the foreseeable future. However, the provisions that would impact us have a potentially significant cost and will affect how we do business in the future. As such, we object to the proposed implementation of Basel III and are concerned about how it will be coordinated with the yet completed regulations associated with Dodd Frank.

Below is a brief discussion of those Basel III items we believe will have the most significant negative impact of Revere Bank and as a result our customers.

Unrealized Gains and Losses to Available for Sales (AFS) Securities

The proposed rules require that all unrealized gains and losses on AFS must "flow through" to common equity tier 1. In other words, daily changes in the value of an AFS security must immediately be accounted for in regulatory capital. Unrealized gains and losses occur in AFS portfolios primarily as a result of movements in interest rates as opposed to changes resulting from credit risk. Interest rates, particularly on debt securities, can fluctuate frequently, and therefore the proposed rules will introduce significant volatility into capital calculations.

While we currently would benefit from this adjustment there is no question that interest rates will eventually raise and as a result our unrealized gain will quickly become an unrealized loss to the AFS securities. In general, we buy securities with the intention of holding them until they mature. We are

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unclear about the treatment of Held to Maturity (HTM) securities within the Basel III proposal. We would strongly consider moving securities from AFS to HTM and risk the loss of flexibility within our portfolio in order to reduce the potential volatility this provision would cause us.

Residential Mortgage Exposure by Category and Impact on Home Equity Lines of Credit (HELOC)

The proposal assigns risk weights to residential mortgages based on whether the mortgage is a traditional category 1 mortgage or a riskier category 2 mortgage; and the loan-to-value (LTV) ratio of the mortgage. The proposal also classifies many junior liens, such as HELOCs, as category 2 exposures with risk weights ranging from 100 to 200 percent. In addition, a bank that holds two or more mortgages on the same property could be required to treat all of the mortgages on the property even the first lien mortgage as category 2 exposures.

We are a community bank that specializes in lending to small businesses. Our bank focuses on helping these businesses grow and expand their work forces which in turn helps the economy. Much of our financing is secured by lien against the business owner's residence in the form of a junior lien behind a primary residential mortgage. These junior liens are supported by strong cash flows from the business being financed. Within the proposal, any junior lien that could increase the LTV on the property to a category 2 level would require the primary lien held by the same bank to be reclassified as a category 2 loan. Not only is this reclassification more expensive to the bank as a result of increased capital requirements but it also would require an additional level of monitoring and tracking. Our potential alternative is simply not to lend the additional funds above the proposals LTV levels to the small business customer necessary to continue to expand their business and benefit the economy.

Credit Enhancing Representations and Warranties

The proposed rules require banks to hold capital for assets with credit enhancing representations and warranties, including mortgages in the process of being sold. Under the existing capital rules, banks are not required to hold capital against assets with such representations and warranties. At present, we sell most of our originated mortgages to investors that have differing representations and warranties periods from six months to a year. At a minimum we would be forced to only sell mortgages to those investors with six month periods which would potentially reduce our competitiveness within this sector.

Conclusion

The U.S. regulators' proposals to implement the Basel III international capital program would apply to all banks in the United States in basically the same manner. This broad brush approach is impractical and inefficient. There is very little similarity to the complexity of Revere Bank's balance sheet or how it does business compared to banks with assets over $20 billion. While we have some risk to the FDIC insurance fund we pose no systemic risk to the national or global economy. Requiring Revere Bank to capitalize our bank based on a concern for global systemic risk factors makes little sense to us and would require a significant cost and burden which will eventually be passed on to our customers in either increased cost or loss of available credit flexibility.

We believe the proposed Basel III regulations will have a damaging impact on the U.S. economy particularly when it was initially intended to safe guard against systemically important international banks. It is interesting to consider that it takes more than one thousand $100 million community banks to create one Bank of America.

If you have any questions, please feel free to give me a call.

Sincerely,

Andrew F. Flott
Chief Executive Officer
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