C-Beyond℠ with Centrix Bank®

BEDFORD • CONCORD • DOVER • MANCHESTER • MILFORD • NASHUA • PORTSMOUTH

October 22, 2012

DELIVERED VIA EMAIL: regs.comments@federalreserve.gov
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 EMAIL: regs.comments@occ.treas.gov
Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

DELIVERED VIA EMAIL: comments@FDIC.gov
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

Ladies and Gentlemen:

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

Centrix Bank & Trust ("Centrix") is a full service state chartered commercial bank serving customers throughout southern New Hampshire and beyond from six full service offices located in Bedford, Concord, Dover, Manchester, Milford and Portsmouth, and a loan production office in Nashua. Centrix is a business bank and specializes in providing highly personalized and responsive service to small and medium-sized businesses and professionals, municipalities, and not-for-profit organizations. Centrix was founded in 1998 and at September 30, 2012 had total assets of $820 million. Centrix provides high-quality jobs in the communities we serve and employs over 130 banking professionals. Additionally, Centrix is dedicated to being an active and supportive member of the communities we serve.

This letter contains our comments on certain key components of the Proposals that directly impact Centrix. Listed below is a summary of items for which we provide comment:

1. Inclusion of Unrealized Gains/Losses on Available for Sale Securities in Tier 1 Common Equity ("CET1")
2. Proposed Risk Weights on Residential Mortgages and Home Equity Loans
3. High Volatility Commercial Real Estate
4. Increased Risk Weights on Delinquent Loans
5. Impact to Centrix Due to the Scope and Granularity of the Proposed Rules

Inclusion of Unrealized Gains/Losses on Available for Sale Securities in Tier 1 Common Equity ("CET1")

Centrix uses its investment portfolio for liquidity management, to supplement earnings, to manage interest rate risk, and to provide collateral to its customers as may be required. At September 30, 2012, the book value of the investment portfolio was $180 million, representing approximately 22% of the bank's total assets. The investment portfolio is comprised almost exclusively of government sponsored mortgage-backed securities, which protects the bank from credit risk. Centrix closely manages interest rate risk from a holistic basis, therefore, including the net unrealized gain or loss on AFS securities in CET1 would significantly limit our ability to manage interest rate risk, as well as result in a reduction in earnings, as discussed further below.

As illustrated in the chart below, the requirement to have market adjustments on the available for Sale securities flow through CET1 will add a significant amount of volatility to our capital ratios. In the current interest rate environment, our debt securities hold a net unrealized gain position and, therefore, would have a positive impact on the bank's capital ratios. However, in this unprecedented low interest rate environment, this position would change dramatically in a rising rate scenario. The chart below provides a summary of Centrix's investment portfolio at September 30, 2012 and illustrates the impact of changes in Market Value under four different instantaneous rising rate scenarios.

Changes in Market Value					
Rate Shock Scenarios	**Current**	**+100 bps**	**+200 bps**	**+300 bps**	**+400 bps**
Book Value	$ 179,585	$ 179,585	$ 179,585	$ 179,585	$ 179,585
Market Value	$ 185,031	$ 178,918	$ 169,357	$ 159,741	$ 150,870
Change in Market Value	**$ -**	**$ (6,113)**	**$ (15,674)**	**$ (25,290)**	**$ (34,161)**
Gain/Loss	$ 5,446	$ (667)	$ (10,228)	$ (19,844)	$ (28,715)

* Dollars listed in thousands

As you can see in a +400 bps instantaneous shock, Centrix's investment portfolio would experience a market value adjustment of $34 million, an estimated impact to capital under the Proposal of $21 million. Centrix maintains a capital buffer, but an adjustment of this magnitude would certainly require an infusion of capital. If this rule is implemented, Centrix, as well as other community banks, would be forced to deleverage, shorten duration on its investments, and/or designate some or all investments as Held-to-Maturity. This would eliminate the market volatility, but would also eliminate our ability to manage our balance sheet through different interest rate and economic cycles, a core tool to offset the inherent interest rate risk in our balance sheet, which we believe is in contradiction with your goal.

Proposed Risk Weights on Residential Mortgages and Home Equity Loans

While Centrix does not hold a significant portfolio of residential mortgages or home equity loans, $53 million or 9% of the loan portfolio, at September 30, 2012, there will be an impact to capital ratios for the proposed rule of category 1 versus category 2 loans due mainly to the loan-to-value component. Based on current assumptions and estimates, we expect risk-weighted assets ("RWA") associated within these loan types to increase by $12.7 million. To offset this expected increase in RWA and to meet the Capital Conservation Buffer for Total Risk-Based Capital of 10.50%, the bank would have to provide approximately $1.3 million in additional capital to maintain its current capital level.

A higher capital requirement will increase the cost of the credit and reduce the availability of credit. If these rules are implemented, Centrix may choose to get out of these lines of business, due to the cost of capital and administrative burden discussed further below. We believe that our current allowance for loan losses methodology is solid and has been proven adequate to absorb risks in this portfolio, even during the stressed economic conditions we have experienced over the last few years.

High Volatility Commercial Real Estate ("CRE")

The bank holds a significant percentage of its loan portfolio in CRE, $352 million or 60% of the loan portfolio, at September 30, 2012. Due to the complex nature of the proposed regulations relating to high volatility CRE ("HVCRE") loans, estimating the impact on RWA and related capital levels would be very difficult without reviewing and evaluating each individual loan in the bank's portfolio. However, using the bank's best estimate of 15% HVCRE, the bank's RWA would increase by $26.4 million and would result in additional capital required of $2.8 million to meet the Capital Conservation Buffer for total Risk-Based Capital of 10.50% and maintain its current capital level. The bank currently addresses CRE concentration as part of its allowance for loan losses methodology and adjusts its allowance accordingly for this concentration. This is an established process as outlined by FIL 104-2006 and has proven to be effective. The proposed rule appears duplicative when combined with the adjustment to earnings for the provision for loan losses. Additionally, higher capital requirements will increase the cost of credit and reduce the availability.

Increased Risk Weights on Delinquent Loans

The majority of banks classify loans delinquent 90 days or more within the scope of ASC 310 (f/k/a FAS114). ASC 310 requires banks to individually evaluate loans and determine impairment, with such impairment included in the bank's allowance for loan losses and, therefore, impacting capital levels directly through loss provisions included in earnings. The proposed rules of risk weighting loans past due 90 days or more at 150%, instead of the current 100%, would imply that the bank's allowance is understated. This would be redundant and unnecessary as an individual impairment analysis has already been documented with the appropriate capital adjustments made. Additionally, the bank's independent accountant reviews the documentation, in addition to the State and FDIC examiners, at least annually. If our methodology was inappropriate, we would be criticized and required to make the necessary adjustments.

Impact to Centrix Due to the Scope and Granularity of the Proposed Rules

The scope of the proposed regulation and its granularity would be very expensive for community banks like Centrix to implement and maintain. There would be significant manual labor involved in reviewing and documenting each loan to determine the actual capital levels/costs. New processes would need to be established to monitor these rules going forward in a way to aid in accurate and timely reporting. Additionally, there would be ongoing staff training required.

For the reasons outlined in this letter, we feel strongly that community banks should be allowed to continue using the current Basel I model for determining capital adequacy. Basel III was designed for banks with assets of $10 billion or more and not community banks. Community banks do not have the complexity and risk components of large banks and for that reason, should not be expected to accept the same level of regulatory burden and capital costs.

C-Beyond™
with
Centrix Bank®

Centrix, like other community banks, operates on a relationship-based business model that is specifically designed to serve customers in their respective communities on a long-term basis. This model contributes to the success of community banks all over the United States through practical, common sense approaches to managing risk. We ask that you consider the severe impact that these Proposals would have on community banks in this country, as well as the impact on their customers and thus the local economies they support.

Thank you for this opportunity to comment on the Proposals as presented. Your time and attention to these crucial matters are greatly appreciated. Please do not hesitate to contact me directly at 603-606-4700 or jreilly@centrixbank.com if you have any questions or would like additional information.

Sincerely,

Joseph B. Reilly - CEO

Joseph B. Reilly
President/CEO