A COOPERATIVE BANK
SINCE 1889
HOMETOWN BANK

October 22, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W. Washington, D.C. 20551
regs.comments@federalreserve.gov
Docket R-1430 and R-1442; RIN No. 7100-AD 87

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov
Docket ID OCC-2012-0008 and OCC-2012-0009; RIN 1557-AD46

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429
comments@fdic.gov
RIN 3064-AD95 and RIN 3064-AD96

Re: Basel III Capital Proposals

Dear Sirs and Madam:

Hometown Bank is a $300 million dollar mutual cooperative bank based in Central Massachusetts. We have reviewed the Basel III proposals and have many concerns. Our concerns include the high level of complexity built into the proposals, the functional limitations of our core processing systems to produce data that will be required, changes to our lending mix and volumes that will be necessary, and certain "double counting" of capital inherent in the proposal.

Complexity

As proposed, the Basel III rules are far too complex for smaller community banks. While there may be a need for higher capital thresholds generally, that objective seems misplaced with Basel III. Big banks may have the core systems that can produce the data necessary to properly comply, but smaller banks like

31 Sutton Avenue • Oxford, Massachusetts • 01540
tel 508-987-1200 • fax 508-987-7001 • www.hometowncoop.com

Hometown Bank, will undoubtedly struggle to build out the software accordingly. These rules will have a very burdensome impact on us. We urge the regulators to simplify the rules.

Double Counting of Capital

There are several aspects of the proposed rules that will essentially require small banks to double count capital. All banks are required by our primary regulators and GAAP to maintain adequate Allowances for Loan and Lease Losses (ALLL). The ALLL takes into account the risk of loss within our respective loan portfolios and we are required to set a sufficient amount of capital aside to account for that risk. Basel III will require that, in addition to our ALLL, our regulatory capital account for the risks of loss within our past due loans. Since we've already captured that risk in our ALLL, we will be required to double count our capital for those assets. I urge the regulators to reconsider this approach. I believe that field exams evaluating the adequacy of our ALLL are the best approach to ensure that bank's account for credit risks in their loan portfolios and specifically for past due loans.

Loan Mix and Loan Volume

Hometown Bank has traditionally lent a high proportion of total deposits back into the community. In fact, our loan-to-deposit ratio regularly exceeds 100%, as it does now. Also our loan origination mix is about 50% commercial lending and 50% residential mortgages. But, the proposed Basel III rules will force us to dramatically alter our strategic direction based on the proposed risk weighting. As we consider our future growth and leveraging of our capital, it will likely be necessary to both curtail overall community-based lending and alter the types of loans we make. As an example, second lien mortgages, a very low risk product for us historically, will now require substantially more capital set aside. Likewise, the proposed rules ignore the enhancement of private mortgage insurance and that will clearly impact our ability and willingness to book such loans. As community lenders, any rules that limit our ability to lend will also hurt the economics of the communities we serve. I strongly encourage you to reconsider proposed rules that require inordinate levels of capital be set aside for certain asset classes that have not shown commensurate levels of risk historically.

Conclusion

While the industry can understand the need for higher capital levels, the Basel III proposed rules appear overly complex, cumbersome to enforce, burdensome to comply with, and, worst of all, likely to hamper community bank's lending activities. I strongly urge you to reconsider these rules to ensure that unintended impacts are minimized.

Sincerely,

Matthew S. Sosik
President & CEO