Abington Bank

October 22, 2012

The Honorable Ben S. Bernanke,
Chairman
The Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
250 E. Street, SW
Washington, DC 20219

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry, and Acting Chairman Gruenberg:

My name is Andrew A. Brown and I am Senior Vice President and Chief Financial Officer of Abington Bank, a mutually owned community bank located in North Abington, Massachusetts, with total assets of $107 million. Our primary business is lending to our community, utilizing funds deposited from customers living in Abington and contiguous towns. In fact, lending accounts for 72% of our balance sheet, with 76% of our loan portfolio in 1-4 family residential loans. An additional 40% of our investment portfolio consists of government sponsored mortgage backed securities – all of which are available for sale. Our emphasis has always been on lending first, while relying on the investment portfolio for liquidity and a temporary haven for deposits awaiting reinvestment into our community.

I write to convey my concerns and the concerns of my fellow officers, my board members, and my fellow community bankers with the proposed Basel III capital requirements, particularly with respect to the negative impact that such regulations would have on our individual bank and the entire community banking industry.

We are fully aware of the catastrophic affects on the national and international economies brought on, in part, by the failure of large banks and financial institutions to conduct business in a prudent and sound manner, and we support the efforts of the regulatory agencies to enhance the standards of the banking industry in this country. Unlike these "too big to fail" institutions, we at Abington Bank (as well as the other community banks of Massachusetts), have operated our businesses in a safe and sound manner, having done so since 1888. We have continued to serve our communities; to provide a safe haven for individual wealth accumulation; to provide home financing for the average American; and to assist Main Street merchants and small business entrepreneurs in achieving their dreams – through depressions, recessions, and in times of prosperity.

6 Harrison Avenue • P.O. Box 68 • Abington, MA 02351 • (781) 878-0045 • (781) 878-9764 fax • TheAbingtonBank.com

As a small, local institution we know our customers – not because we have new laws that make us do this – but because that is how we have always done business. We know our customers; we know their parents, and their grandparents. In many instances we can stand out on the roof of our building and see our commercial borrower's businesses or we can take a short walk or drive to visit them for lunch. Our customers are multigenerational and many have banked with us all of their lives because we are the community bank in Abington. Our Bank is located on Harrison Avenue – not Wall Street. Our Mission Statement is based on community service – not corporate greed. Our customers know us – and we know them, not because of the law, but because this is community.

As a small community bank, we offer many of the same products and services that the large "too big to fail" institutions offer. We provide a myriad of savings, investments, and lending products. Our goal is to succeed, to thrive and to survive. This is where the similarities with the big banks stop. As a mutually owned institution, we have a commitment to our depositors to uphold the legacy that has been passed down for generations to provide prudent and sound banking to everyone in our community. As such, we have never been involved in the kinds of "high financing schemes" that brought on this current financial catastrophe. We have not prayed upon the weak nor have we misled our customers into unnecessary financial entanglements. We have provided several dozen re-finance plans over the past several years to enable as many families to stay in their homes after facing traumatic, and at times, catastrophic financial setbacks.

We are concerned that the proposed Basel III rules will negatively impact our ability to serve our community.

Community banks such as ours have little or no access to capital markets. In order to survive we need to grow. In order to grow, we need additional capital (even with current capital requirements). Our primary source of capital growth is through organic, retained earnings. Proposed capital calculation requirements (particularly risk weighting) will adversely effect our capital position in a number of ways:

- Mortgage lending is the mainstay of our business as a community bank. In an economic downturn (especially one driven by a volatile real estate market) risk weighting based on outdated loan-to-value ratios, particularly on loans that maintain excellent credit and payment history, is unfair, if not punitive in nature.
- While we have always maintained a high standard of underwriting (as evidenced in our extremely low historic loss ratio), we have always complied with all of the underwriting standards needed to sell loans into the GSE secondary market. However, we always look to retain the servicing of such loans, and in many instances we hold these loans for a short period of time before sale. In some instances, we have chosen to hold these loans for a longer period of time. Risk weighting these loans held on our books under the proposed calculations may hamper future lending to 'less than perfect' credits.
- Surplus funds (those not channeled into mortgage lending) are invested in a number of legally accepted investments such as government agency bonds and mortgage backed instruments. Currently, market valuations are reflected on our

books on a monthly basis through adjustments to comprehensive income in the Capital account. For Capital calculations our regulators do not require the comprehensive income adjustment – except in the instance of our equities portfolio. Proposed rules would force the recognition of market swings and would create potentially extreme volatility in our bank's Capital.

These are just a few of the instances in which this proposed regulations would have a negative and detrimental effect on Abington Bank and community banking as a whole. We are concerned that the proposed standards are flawed in many ways when it comes to mutually owned, community banks. We feel that many of the risk weighted assessments are punitive in nature, intended to bridal the horse well after it has exited the barn; and that painting the well run, well regulated community banks with the same brush required for the mismanaged, "too big to fail" banks and the Wall Street crowd, is unfair and destructive to an essential form of American financing.

We look to you for your leadership and help in the survival of community banking in this country. We ask you to act on our behalf, and on behalf of the hard working members of our community, to reconsider the devastating effect of this proposed Basel III regulation, and to postpone enactment of this regulation until further studies and assessments can be made. I thank you for your consideration.

Sincerely,

Andrew A. Brown
Senior Vice President/CFO and Treasurer