JOHN F. TRENTACOSTA
President & Chief Executive Officer

October 16, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Delivered via email: comments@FDIC.gov

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, DC 20219
Delivered via email: regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Delivered via email: regs.comments@federalreserve.gov

RE: Basel III Capital Proposals

Ladies and Gentlemen:

I appreciate the opportunity, and consider it an obligation as a community banker, to comment on the Basel III proposals recently published by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Newtown Savings Bank is a $950 million, state chartered mutual bank established in 1855. The Bank's primary focus is to provide mortgage loans to borrowers in the State of Connecticut. Over the past fifteen years, in order to continue to service its marketplace and to enhance earnings, the Bank has entered the secondary mortgage market. We currently have $825 million in loans that we have sold but have retained servicing. Given the capital constraints of a mutual bank, placing these loans in portfolio would have been virtually impossible. Our customers however enjoy the benefit of having their servicing needs met by

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someone in their community as opposed to across the country or perhaps across the world. In addition, our customers have access to senior level management in the Bank.

Our Board and Management support increasing capital requirements for banks in our country to ensure the continued financial viability of our industry. There are however, specific aspects of this proposal that are particularly concerning to us as a community bank, and in particular a mutual bank, with no access to capital other than retained earnings. The following are areas of particular concerns to us.

Mortgage Business

As indicated above, our Bank's primary business model is to engage in residential mortgage lending. Although in competition with all of the national mortgage lenders, our Bank ranks within the top 20 out of 190 lenders in the State of Connecticut. The complexity of the mortgage risk weights based on loan-to-value ratios will create a regulatory burden for us. Over the last several months, we have reacted to the needs of certain borrowers that would have qualified for Federal programs such as HAMP or HARP except that we had sold these loans to the Federal Home Loan Bank under their MPF Program. Non-eligibility for favorable treatment for loans sold to the FHLB system remains a mystery to us. These borrowers have reached out to us for assistance and we have attempted to meet their needs by repurchasing these loans and offering more favorable terms. The look-back provisions in the proposal could prove this to be a mistake; as such loans will assuredly carry a higher risk weight.

Also with respect to mortgage banking the current proposal's restrictions on mortgage servicing rights will negatively impact our capital and consequently our ability to maintain our current position in our market place. This will clearly reduce competition, create a higher reliance on the national players and result in higher pricing for our consumers.

In addition this aspect of the proposal could materially impact the Bank's earnings. For the first nine months of 2012, mortgage servicing and mortgage banking revenue were 15% of the Bank's gross operating revenue. A reduction in revenue could clearly result in job loss, and equally important the charitable role we play in our community, either through the Bank's Foundation or through Bank contributions. Lastly, the risk weightings for category 2 mortgage loans seriously questions why a mutual bank, with no other means of enhancing capital, would compete against the large nationals in the home equity marketplace. We have not calculated the impact of the look-back provisions but this will also have a significant impact on capital as it could taint the capital requirements for our first position liens.

Proposal to increase risk weights on delinquent loans/1.25% limitation.

I am sure I am not the only banker concerned with the proposal to increase risk weights for delinquent loans. Since we already set aside reserves for loans that fall into more serious stages of delinquency, this proposal would have us take charges to capital twice. This appears to make no sense to us in the industry as loan risk is currently managed through the ALLL process. If this proposal were to be adopted, we would clearly be less inclined to work with our borrowers and more likely to deploy balance sheet clean-up strategies through loans sales. Once placed in the hands of "problem asset purchasers" this could have a negative impact on housing, in general.

Also we question the limitation of 1.25% of total risk-weighted assets for the loan loss reserve. We believe this to be counter-intuitive to building stronger balance sheets and safer banks. Additions to the loan loss allowance should be encouraged, when appropriate and when in conformance with GAAP.

Requirement that gains and losses on available for sales securities must flow through to regulatory capital

The Bank currently has an unrealized gain of $1.1 million in available for sale securities on its bond portfolio. When rates eventually rise, these bonds have the capacity to be significantly under-water, negatively impacting capital under the proposed rules. This will eventually lead the Bank into classifying more securities into "Held to Maturity" which will have an adverse effect on the Bank's liquidity management. An increasing focus on HTM classifications will also result in the Bank purchasing shorter duration instruments and require management to adjust investment policies and practices, accordingly. Currently, the Bank's portfolio is approximately 80% AFS and 20% HTM.

Impact on Ratios

The inclusion of accumulated other comprehensive income in the regulatory capital ratio calculations will ultimately reduce the Bank's Tier 1 Leverage Ratio, Tier 1 Risk-Based Capital Ratio, and Total Risk-Based Capital Ratio. The Standardized Approach NPR only exacerbates the problem with higher risk-weight requirements for numerous balance sheet items.

More specifically, the changes to the residential mortgage risk-weights will have a profound impact on the Bank's regulatory capital ratios causing our risk-weighted assets number to increase by at least $20 million for this change alone. The increase is likely to be higher than that; however, it is difficult to track all of those instances where the Bank holds both a first and second mortgage on the same property whereby the second lien pushes the loan-to-value above the stated threshold causing both loans to be treated as Category 2 loans.

The impact of a 150% risk weight for non-residential nonaccrual loans results in an additional $4.7 million increase for risk-weighted assets. Finally, although not fully effective until 2018, the amount of the Bank's combined mortgage servicing assets and deferred tax assets below the deduction threshold level must be risk weighted at 250%. The Bank's risk-weighted assets will jump another $15 million when this goes into effect. Although difficult to model with certainty given the complexity and vagueness of the proposed rules, the Bank's Tier 1 Risk-Based Capital and Total Risk-Based Capital ratios will be further negatively impacted by all of these risk-weighting changes. In summary taking into account changes to both the numerator and the denominator, the Bank's capital ratios are projected to be impacted as follows:

	Current	Fully Implemented	Change
Tier 1 Leverage	8.03%	7.21%	82bp
Tier 1 Risk-Based	11.50%	9.84%	166bp
Total Risk-Based	12.75%	11.03%	172bp

Conclusion

While supporting stronger capital requirements for the U.S. banking system, Basel III makes no differentiation for community banks and in particular, the mutual form of organization. Currently there are 577 banks organized in the mutual form accounting for $209 billion in assets. It appears that our form of organization was not considered at all when considering these proposed capital rules. The agencies provided limited commentary regarding mutuals. If left unaddressed, the Basel III proposals could be the beginning of a rapid decline of the mutual form of organization among Banks. This would be a terrible loss for the industry and the communities that we serve.

Thank you for your consideration.

Sincerely,

John F. Trentacosta
President & CEO

cc: Senator Richard Blumenthal
Senator Joseph I. Lieberman