Millbury National Bank

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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

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

Re: Basel III Capital Proposals

Dear Sirs and Madam:

On behalf of Millbury National Bank, I appreciate the opportunity to comment on the Basel III proposals 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").

I strongly believe that the Proposals are far-reaching and needlessly complex for a small community bank like Millbury National Bank. If these new proposal are adopted, they will have a negative impact on not only the banking industry, but consumers and small businesses. In addition to being extraordinarily complex and presenting numerous operational and compliance challenges to our Bank, the Proposals remove regulatory discretion and expertise from the safety and soundness examination process. Our banking regulator, the OCC, already has broad authority to impose bank-specific capital requirements on depository institutions through the existing prompt corrective action process and have far greater knowledge of the local and regional economic conditions that affect us when they make their regulatory decisions. We recommend placing more emphasis on principled and qualitative measures of risk as monitored by bank management and experienced regulators instead of a punitive, one-size-fits-all model that applies to both the largest, most complex institutions in the world as well as local community institutions, like Millbury National Bank, with generally conservative balance sheets that pose little if any risk to the global economy.

Millbury National Bank supports a strong banking system with healthy capital levels and we are capitalized well above regulatory minimums and have maintained strong capital levels throughout the recent financial crisis. Strengthening the level and quality of capital throughout the industry are important goals as regulatory agencies deal with the aftermath of the financial crisis.

Millbury National Bank did not engage in the risky lending and investment practices that caused the financial crisis. We have been in business since 1825, serving the local community. We have never utilized complex derivatives or engaged in substantial off-balance sheet transactions. We are primarily a commercial lending institution and our lending activities are well-supervised by the OCC.

From what I have read, I have concern that our Bank, along with many other community banks, will be adversely affected by this new Proposal. I have listed here, some short bullet points that illustrate my concern:

- I think the Proposal, by lumping us in with the megabanks, jeopardizes the viability of the community bank model.

- In addition to implementing new minimum capital requirements, the Proposal completely revises many of the current risk weights that community banks use when calculating regulatory capital.

- Community banks do not have the access to the capital markets that large banks do and need years to build up capital through retained earnings.

- If this Proposal is implemented in 2013, community banks will not have enough time to get their capital levels up, as many of them are still recovering from the financial crisis.

- With the inclusion of Accumulated Other Comprehensive Income (AOCI), volatility in capital will be driven by interest rates and external credit spreads and will make it extremely difficult for us to effectively execute our capital planning program.

- The inclusion of AOCI will discourage banks from holding investment securities, which will depress the market values of these securities.

- Penalizing high Loan-to-Value Loans with credit-enhancements will curb future lending activities.

- Raising risk weights on residential mortgage loans will impair home financing by raising mortgage interest rates, thereby limiting the borrower any access to financing.
- Allowance for Loan Losses inclusion in Total Capital should not be capped at 1.25% of assets.
- Some, if not all of the Allowance for Loan Losses, should be included in Tier 1 Capital since it represents the first line of defense against any capital-absorbing losses.
- The timeline is too aggressive for many community banks to meet the new minimum capital requirements and could trigger a whole new banking crisis.

Additionally, from a competitive standpoint, banks will be forced to comply with these new requirements while the credit union industry, a major competitor to community banks, will be exempt. This exemption, in conjunction with the credit union industry's tax exemption, will give them even greater competitive advantage over the community banking industry. If finalized, the Proposals should apply to all US depository institutions to ensure a level playing field.

Thank you again for the opportunity to comment on the Proposals. I appreciate your consideration of the points that I have listed. All I ask is that you please consider the effect the Proposals will have on a small bank like Millbury National Bank when you develop the final rules of the Basel III Proposals. If you have any questions or need additional information, please contact me at (508) 865-9521, extension 231, or at msilva@mnbonline.com.

Best regards,

Mark J. Silva

Mark J. Silva

Vice President & Chief Financial Officer

Millbury National Bank