



# Southbridge Savings Bank

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October 19, 2012

Robert E. Feldman, Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corp.  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429  
[comments@fdic.gov](mailto:comments@fdic.gov)  
RIN 3064-AD95 and RIN 3064-AD96

Office of the Comptroller of the Currency  
250 E. Street, S.W.  
Mail Stop 2-3  
Washington, D.C. 20219  
[regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)  
Docket ID OCC-2012-0008 and OCC-2012-0009; RIN 1557-AD46

Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Ave, N.W.  
Washington, D.C. 20551  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)  
Docket R-1430 and R-1442; RIN No. 7100-AD 87

Re: Basel III Capital Proposals

Dear Ladies and Gentlemen:

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

Southbridge Savings Bank is a \$422 million, state chartered mutual bank established in 1848. We currently have nine branch locations throughout central and southern Worcester County in Massachusetts, serving the needs of the small businesses and families and individuals in our communities. We also have an investment subsidiary which currently has over \$105 million under management. As of September 30, 2012, Southbridge Savings Bank had Tier 1 Leverage Capital of 10.28%, Tier 1 Risk Based Capital of 14.70%, and Total Risk Based Capital of 15.95%.

As written, the proposed Basel III rules that pertain to all banks regardless of size and scope of operations are not appropriate for small community banks. While I am supportive of higher minimum capital levels than those that exist today, the one size fits all approach is the greatest threat to community banking. As a result it is my opinion, to oppose Basel III as drafted. Being a community based institution we are an important source of personal and business lending. In many areas, small institutions are the only ones that provide direct local services and have a stake in the success of their communities. Community Institutions are different from the larger institutions in size and scope, and I do not see the value in requiring them to follow rules designed to manage larger and more complex risks. Southbridge Savings Bank, being a mutual institution, has limited access to capital, and as such is reliant on retention of earnings to maintain and grow its capital levels.

Specifically the areas that will have a negative effect are as follows:

**Revised Risk Weights for Residential Mortgages:** Requiring higher risk weightings will require the Bank to hold more capital against products that have been relatively risk free over the years and in turn create an increase in rates on the mortgage products to our consumers.

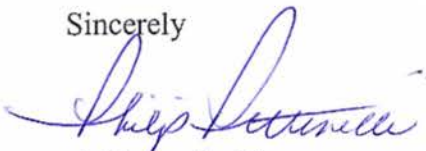
**Ignoring Private Mortgage Insurance:** Requiring increased risk weights for mortgages that exceed 80% LTV and, at the same time ignoring the presence of private mortgage insurance, will hamper community banks from providing mortgages for those borrowers with strong credit and income but lacking down payments. The proposal does not differentiate between a bank that requires a credit enhancement for high LTV loans and banks that do not.

In both of the above noted items, I believe that the regulatory field exams are the place for the determination of capitals levels at banks based on an assessment of the individual banks risk profile.

**Revised Risk Weights for Past Due Loans:** Delinquent loans must be considered in the Allowance for Loan and Lease Loss analysis. Again Community Banks are highly regulated in this area and are criticized if we do not adequately recognize the need for capital to mitigate these possible future losses.

In closing, I believe the cumulative effect of these one size fits all regulations will have a significant impact on the community banks nationwide. Please consider the impact these new rules will have and to consider a possible exemption for the many community institutions that are the backbone of the communities we all serve. As a member of the Massachusetts Bankers Association I encourage you to review the comment letter prepared by them which goes into much greater detail on each of these items.

Sincerely



Philip Pettinelli  
President & CEO