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October 19, 2012

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

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

Office of the Comptroller of the Currency
250E. Street, SW
Mail Stop 2-3
Washington, D.C. 20219
Delivered via email regs.comments@occ.treas.gov

RE: Basel III Capital Proposal

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 (collectively the "banking agencies").

My name is Stephen G. Lear and I am the Chairman, President and CEO of North Shore Trust and Savings in Waukegan Illinois. North Shore was chartered in 1921 and we are proud to have recently celebrated our 91st year of serving our customers and community. We are a proud mutual thrift with three offices in Lake County, Illinois.

NSTS is a $260 million "true" community bank specializing in making home mortgages and providing traditional banking services to our customers, customers we know personally. We take our role as a community bank seriously, making mortgage loans to qualified borrowers who want to own their own home. We also lend to local investors who make rental housing available in our area. This is a vital part of our business model and integral part of our mission statement. The recent economic crisis has severely challenged our role, especially in the housing area, but we have persevered due to a long standing, conservative management philosophy that always focused on a building and maintaining a strong capital position. We currently have a capital ratio of 16.5%.

For these reasons, I feel it necessary to explain my opposition to the proposed capital requirements of Basel III. These requirements, while they may be appropriate for the large domestic and foreign banks, are not appropriate for "community banks", like North Shore Trust and Savings. We had little to do with the recent economic crisis largely created by unscrupulous mortgage lending by lenders outside of the banking system, or by the likes of Countrywide or Bank of America. Community banks are different and should not be punished for the risky actions of others.

Basel III will directly impact our approach to prudent capital management and lending by reducing our ability to continue traditional mortgage lending. The proposed rules regarding residential mortgages will make mortgage loans more difficult to obtain in many markets, including those typically served by community banks like ours. It is already difficult to manage interest risk while trying to book 15 and 30 year fixed rate portfolio loans. We have historically been able to make first-time home buyers loans with 90% loan to values, "non-conforming" loans and commercial real estate loans for rental apartments because we know our customers. This type of lending will be impacted at our bank because the higher risk rating of these loans will require more capital, increasing the cost of the credit and reducing the availability of credit in our markets. Even home equity lending will be impacted because of the increased risk weighting. This type of capital buffer is not necessary in that the ALLL calculation already includes analysis of all pertinent environmental risk factors, thus fostering a redundancy in raising capital requirements.

It should also be noted that the many of our mortgage loans made to low to moderate income families are supported by private mortgage insurance resulting in a loan to value ratio in excess of 90%. The proposed capital requirement for these loans will have disparate impact on this segment of our community.

Increasing risk weights on delinquent loans is yet another redundant means of raising capital requirements in community banks. Analysis of delinquent loans is already an integral part of the ALLL methodology and calculation.

One of the strategic decisions of our bank recently is to manage interest rate risk through a reduced loan to deposit ratio, especially in light of this protracted low interest rate environment. This strategy has resulted in our need to sell originated mortgage loans in the secondary market – servicing retained. We would like to keep the customer relationship without the undue associated interest rate risk. Basel III will impact this strategy also in that our servicing rights will now be risk weighted at 100%, discouraging us from providing our customers with the benefits of a locally serviced residential mortgage.

The potential long term impact of this regulation's requirement that unrealized gains and losses on available for sale securities flow through the capital account will force us to retain a greater portion of our investments in short-term, highly liquid assets, rather than investing them in communities for economic development and job creation.

The imposition of Basil III capital requirements on our shell holding company will cause us to reevaluate the necessity of this corporate structure. One of the reasons for our formation of this holding company was to provide an easier way, if needed, to inject capital in the savings association. The proposal will necessitate that we develop costly compliance procedures that will negate the advantages of the shell that could be a source of strength if needed.

As you can see, most of my concern with Basel III relates to the unintended consequences will have against community banks whose bread and butter over the years is a result of prudent mortgage lending. The new capital requirements designed to address the risk in lending strategy do nothing but create a redundancy in capital calculation that is both unfair and unnecessary for community banks like North Shore and Savings. The results of the proposed Basel III rules are more suited for very large domestic and foreign banks that have historically been allowed to operate with less capital than community banks.

It would seem more reasonable to adjust current capital level requirements across the board for all financial institutions to reflect the collective agency concerns rather that the complicated, unfair and unnecessary Basel III.

I want to thank you again for the opportunity to comment on the Basel III proposal.

Sincerely,

Stephen G. Lear

Stephen G. Lear
Chairman, President and CEO
North Shore Trust and Savings and
North Shore MHC