October 19, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N W Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I appreciate the opportunity to provide comments on the Basel III proposal that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. While the intent of these rules is to strengthen the banking industry, which I support, the potential impact could very well be to favor very large banks and non-community bank providers of residential mortgages. This seems contrary to minimizing "too big to fail" and potentially rewards non-bank originators of residential mortgages who were major contributors to our country's real estate crisis. I have real concerns as to how this proposal will affect my bank, our industry and the economy in the years to come. The following provides some specificity as to some of the potential consequences for my institution

I am the Chief Credit Officer of the Bank of Canton, a 176 year-old mutual savings bank located in Canton, Mass with $625 million in assets and $59 million of total capital. Our Tier 1 Capital / Leverage as of 9/30/12 is 8.62%, and Total Risk-based Capital as of 9/30/12 is 14.29%. I am writing to register my opposition to the proposed Basel III capital standards. The following provisions contained in this proposal will be significantly detrimental to our Bank and community banks like ours.

1. The elimination of Trust Preferred securities from capital will cause us to restrict our growth. As a mutual savings bank we have no shareholders and can only increase our capital levels thru earnings or by decreasing our size. We currently have $10 million of Trust Preferred securities outstanding. At a minimum we would need to restrict our growth to offset the elimination of this capital. We would probably need to actually shrink our assets to ensure adequate capital levels.

2. We have a very successful residential lending business. Over the past four years we have originated and sold over $3 billion in residential loans. On an annual basis our residential loan sales volume normally exceeds our total assets. The inclusion of loans sold that are still "under warranty" in the capital calculation could increase our risk-weighted asset level by as much as 25%-30%, requiring a similar amount of additional capital (which I estimate at $15 million). Because of the unpredictability of lending volumes we would have to hold capital equal to the projected peak volume levels. If this provision is included in the final regulations we will have to drastically reduce or eliminate this line of business. As a mutual bank we would not be able to raise the capital necessary to support it. Residential lending is a core banking function that significantly benefits our community and our Bank. The amount of the capital charge also seems to totally unrelated to the risk level. We have never repurchased a loan due to the "early default" provision nor have we incurred any losses from loans we have sold. From a "risk" standpoint the $15 million capital requirement is clearly too high to support an activity that does not have a history of losses.

Over the last 5 years we have been recognized 3 times as the top provider of loans to minority and low income borrowers by the Massachusetts Housing Financing Agency an honor that we take great pride in. Performance of these high loan to value residential mortgages originated by our bank meet or exceeds the peer group performance based upon conversations with senior management at the agency. The definitions of residential lending categories coupled with the proposed requirement to hold capital during the representation and warranty period (not clearly defined) will limit our appetite for this type of good lending that has benefited the bank and the community at large.

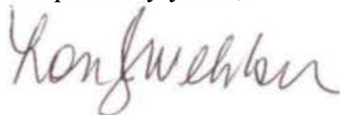
Loans originated for our own portfolio will likely be even more conservative than in the past to account for new risk weighting standards and treatment of past due accounts.

3. The inclusion of unrealized gains and losses on investments where the par value of the security is expected to be paid at maturity (i.e., bonds) will cause unnecessary volatility in capital levels. Our Bank currently has significant levels of unrealized gains that may in fact never be realized- they could disappear tomorrow if market interest rate were to rise. These "market" gains shouldn't be relied upon as capital to support the Bank's operations. Similarly, losses shouldn't be deducted from capital until they are realized as long as the bond is expected to be redeemed at par at maturity. A bond's market price will fluctuate, but as long as the securities par value is expected to be paid at maturity these temporary holding gains and losses are not an appropriate addition or deduction to capital.

Ironically, when the economy begins to grow and interest rates begin to rise "market losses " may cause the many banks to be unwilling or unable to lend based upon the reduction in capital levels caused by recognizing gains or losses through the income statement. Management of interest rate risk is essential but the current regulatory regimen and monitoring of quarterly call reports can adequately address this area of concern.

Both the industry and regulators must learn from the recent shock to banking system and our economy caused by use of sophisticated financial instruments and weak underwriting standards. However, I have confidence that small enhancements to the regulatory system that has served us well over the years combined with some modest increase in capital requirements can adequately address the risks present in the community bank segment of the industry.

Respectfully yours,



Lori J Webber
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