Eastern Bank

265 Franklin Street
Boston, Massachusetts 02110-3120

October 22, 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:

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").

I am Chairman and CEO of Eastern Bank Corporation and its wholly owned subsidiary Eastern Bank, headquartered in Boston, Massachusetts. Eastern is the oldest mutual bank in the country, founded in 1818, and at $8.2 billion in assets, the largest bank that remains completely mutual, without any sale of any minority shares. We operate as a full service commercial bank, although our heritage was originally as a savings bank. Our 95 retail branches cover a footprint entirely within eastern Massachusetts, although our commercial lending and our insurance agency operations cover a wider area of southern New England.

Our 1650 employees are proud of our commitment to serving our customers and communities. We annually donate 10% of our net income to charity, and my colleagues annually provide close to 20,000 hours of community service. We are proud of our many consecutive years of earning a "1" rating on CRA. We are also proud of having been named the number one SBA lender in Massachusetts for the past four years and the number one SBA

lender in New England over the past three years, despite being much smaller than many of our competitors.
As a mutual, we have no access to the capital markets for permanent equity capital, and are completely dependent on retained earnings. Fortunately, like most mutuals, we are well capitalized, holding over $1 billion in capital, with a leverage ratio of 10.08%, a Tier 1 Capital ratio of 15.45%, and a total Risk Based Capital ratio of 16.70% as of September 30, 2012 Still, I am highly concerned about the effect that Basel III might have on our ability, and that of other banks, to continue to serve the economic development needs of our communities and their citizens.

I am certain that you have received many letters addressing a number of issues with Base III, including many that concern me including the treatment of equity securities (as a mutual in Massachusetts we hold a grandfathered right to own equities at the bank level); the increased volatility on pension accounting (as a mutual we use a defined benefit pension plan to help differentiate us as an employer of choice); and the illogical requirements of requiring increased loss reserves for past due loans while requiring a deduction from capital for loan loss reserves above 1.25% of standardized assets. I hope that each of these issues receives more review before final pronouncement.

I do want to add another example of a potentially negative impact of the current proposals. This concerns the treatment of second mortgages, which typically would fall into category 2, requiring higher capital, and of higher LTV first loans, even those with PMI, which also would require higher capital.

Our bank has been an active supporter and promoter of a unique mortgage program in Massachusetts called the "soft second" program, sponsored by the Massachusetts Housing Partnership in conjunction with a number of community-based agencies including the Massachusetts Affordable Housing Alliance. The loans provide low-income first time home buyers with a 78% first mortgage and a 20% second mortgage, for a total LTV of 97%, with interest only on the second mortgage for a number of years, and a reduced rate on the first mortgage. The program also includes an extensive pre-loan education program to make certain that homebuyers understand fully the ramifications of becoming a homeowner.

The program is currently being revamped, and will probably move towards a single 97% LTV first mortgage, with rate and payment relief, in order to better fit potential secondary market opportunities. Currently all the mortgages made under the program are held as portfolio loans by the lenders, such as Eastern. I suspect even in the new program the loans will continue to be held in portfolio.

Since 1992 the overall program has resulted in almost 16,000 loans totaling $2.5 billion, to borrowers with an average household income of approximately 55% of the area average. Eastern makes 40-80 such loans each year, and portfolios both the first and second mortgages. Overall delinquencies in the program have been very low historically (we had zero net losses for over fifteen years) and even since the financial crisis the delinquencies in the program statewide have run behind those of the average residential portfolio.

Under current regulations, because of the pricing concessions, these loans are barely profitable, and represent a substandard return on capital, but lenders such as Eastern are committed to the program for all the benefits they bring to our neighborhoods. The Basel III capital requirements will make holding these loans in portfolio even more onerous, and I am concerned about Eastern's ability to continue in the program at the same level. I suspect other lenders will face the same troubling questions as to their ability to continue in this vital program.

I strongly urge you to reconsider the implementation of Basel III. Unintended consequences such as those for the soft second program, among many others, require a significant rewrite of the proposals. Banks such as Eastern, deeply committed to their customers and communities, have a desire to be as helpful as possible as this nation tries to move forward in rebuilding a stronger economy. Basel III, as promulgated, will make the job of community banks even more difficult, and it needs significant revision.

Thank you for your careful consideration.

Sincerely,

Richard E. Holbrook
Chairman and CEO
Eastern Bank Corporation and Eastern Bank

Reh/jm

Copies:
Senator Brown
Senator Kerry
Representative Frank
Representative Capuano
Representative Lynch