From: Bank of Canton, Lesley Lockard

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

I am writing urgently to request that several counterproductive and unnecessary Basel III proposals be reconsidered and rescinded for community banks. I serve on the Board of Directors of the Bank of Canton, a mutual savings bank located in Canton, Massachusetts. We are very concerned about the potential impact on community banks like ours of several of the recently approved Basel III proposals. These requirements would impose unnecessary and damaging consequences on community banks, which will undermine the very purposes for which it seems the requirements were adopted.

As a general rule, community banks did not engage in the practices that contributed to causing the recent economic downturn, and they are not large enough that they could jeopardize the national and world economy if they were to fail. Imposing these drastic and unnecessary proposals on community banks will require them to severely restrict commercial and real estate lending. This will undermine the revival of the real estate market and the business expansion on which the economic recovery of our community, our state and our country depends.

We are particularly concerned about the impact on community banks like ours of the following requirements.

1. The elimination of Trust Preferred securities from capital will require us to restrict our growth. Mutual savings banks like the Bank of Canton can only increase our capital levels through earnings or by shrinking our assets. Eliminating our $10 million in Trust Preferred securities from our capital calculation will most likely require us to decrease our assets so that we can meet and maintain required capital levels.

2. The inclusion of loans sold that are still "under warranty" in our capital calculation could increase our risk-weighted asset level by as much as 25%-30%, requiring a similar amount of additional capital, which we estimate at $15 million for us. One of the primary services we offer to our community is mortgage lending. In fact, the Massachusetts Housing Finance Agency has recognized us as being the top lender in Massachusetts to minority and low income lenders in three out of the past five years. Over the past four years, we have originated and sold over $3 billion in residential loans. Our residential loan sales volume normally exceeds our annual total assets. Because the volume of lending is unpredictable, we would need to keep our capital equal to projected peak volume levels. If this requirement is not rescinded, we will have to drastically reduce or eliminate our residential lending. Because we are organized 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 greatly benefits our community, our Bank and our employees, and the economy as a whole.

The approximately $15 million capital charge also seems greatly disproportionate to the risk the requirement is presumably seeking to address. We have never repurchased a loan due to the "early default" provision, nor have we incurred any losses from loans we have sold.

3. The inclusion of unrealized gains and losses on investments in which the par value of the security, such as a bond, is expected to be paid at maturity will cause unnecessary volatility in our 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 rise. These "market" gains therefore 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 security's par value is expected to be paid at maturity, these temporary holding gains and losses are not an appropriate addition or deduction to capital. As the economy continues to recover and interest rates begin to rise, these "market losses " may well cause many banks to be unwilling or unable to lend because of the reduction in capital levels caused by recognizing gains or losses through the income statement. This would undermine the economic recovery and stability that these proposals are aimed at accomplishing. Monitoring interest rate risk is certainly important, but the current regulatory scheme and the monitoring of quarterly call reports are adequate for this purpose.

Please reconsider and eliminate these requirements that would be so counterproductive and unnecessarily damaging in their effects on community banks. Thank you for considering our concerns.

Respectfully submitted,

Leslie Lockard
Bank of Canton