PISCATAQUA SAVINGS BANK
Portsmouth's Local Bank
Since 1877

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October 14, 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 am writing to you today to encourage you to oppose the proposal for the new bank capital requirements, Basel III. We all applaud the need for a financially strong and stable banking system; however, with this proposal one size does not fit all. The impact on community banks could have negative implications on the local communities that they serve. Community banks support local businesses and homebuyers which are the keys for an economic recovery. If capital requirements become too restrictive the proposal could have the unintended consequence of reducing credit needed for the recovery.

Piscataqua Savings Bank is a $230 million mutual savings bank celebrating its 135th year serving the needs of the communities that make up the Seacoast area of New Hampshire and southern Maine. Our bank's balance sheet, like most community banks, is made up of retail deposits and loans with other investments in agency, municipal and corporate bonds, not the complicated assets and liabilities of larger banks.

There are a number of proposed changes that concern me. First, risk weighting delinquent loans as a part of capital does not make sense since banks already reserve on the loans they hold, write

loans down for severely delinquent loans and account for those individual loans that have been restructured. This requirement would be redundant and would force banks to hold more reserves than necessary.

There are a number of provisions which will impact community banks regarding home mortgage lending. My bank is one of the top residential mortgage lenders in the Portsmouth, NH market and provides much needed portfolio mortgage products to the communities we serve. Not every consumer meets the underwriting criteria of FNMA/FHLMC, but is still good a credit risk. This is where Piscataqua Savings Bank shines. We provide portfolio mortgages to those that have unusual circumstances and do not meet secondary market guidelines. Although these loans do not conform to FNMA/FHLMC they are well performing with loans 30 days or more past due representing only .69% of total loans. We do not stand alone in providing this service. Many community bankers throughout the state and the country provide this valuable service. Each mortgage related Basel III provision by itself may not impact the level of mortgage lending for most community banks, but together, on top of the increase in compliance regulations from the Dodd Frank Act and CFPB, could force many community banks out of the mortgage business. The impact would be less competition, higher costs, or the homebuyers being precluded from obtaining mortgages altogether.

Finally, during an unprecedented time of low interest rates I am concerned about the provision to require that unrealized gains and losses of securities flow through to capital. Granted, most banks currently have unrealized gains in their books, which will increase capital in the near term; however, when rates turn some banks may be required to pull back from lending activity due to devaluation of securities, just as the economy is recovering, due to capital constraints. This provision will also bring increased volatility to the banking industry's capital levels at a time when the market is seeking stability. I certainly would understand the need to reflect unrealized losses in capital that are due to a security's underlying credit risk, but I do not agree that it should be based upon changes in interest rates.

In conclusion, I ask that you consider the provisions in Basel III and their impact on small community banks and provide an exemption for those provisions that will impede community banks from serving their communities.

Respectfully,

Richard M. Wallis
President/CEO