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October 19, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W. Washington, D.C. 20551
regs.comments@federalreserve.gov
Docket R-1430 and R-1442; RIN No. 7100-AD 87

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov
Docket ID OCC-2012-0008 and OCC-2012-0009; RIN 1557-AD46

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429comments@fdic.gov
RIN 3064-AD95 and RIN 3064-AD96

Re: Basel III Capital Proposals

Dear Sirs and Madam:

The Board of Directors, Management and staff of Beverly Cooperative Bank (BCB) appreciate the opportunity to provide comments on the Basel III proposals (the "Proposals") entitled: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule. As you know, these proposed rules 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").

BCB is a \$300 million state chartered cooperative serving the communities along the north shore of Boston. We are about to celebrate our 125th year of service to the communities we serve.

General Comments

As a community bank and a member of the Massachusetts Bankers Association (MBA), BCB strongly believes that the Proposals, if adopted, will have negative implications on consumers, small businesses and the banking industry. We believe these Proposals are extraordinarily complex and present numerous operational and compliance challenges. BCB supports a banking system with strong capital levels. The overwhelming majority of community banks, especially in the northeast section of the country, are capitalized well above regulatory minimums and maintained strong capital levels throughout the recent financial crisis.

BCB is a relatively simple and conservative bank and did not engage in the risky lending and investment practices that caused the financial crisis. There appears to be a needless urgency at the regulatory agencies to finalize and implement these Proposals as quickly as possible – without a comprehensive study of the broad impact they will have, especially on small community banks. We also feel strongly that one size does not fit all and that the US banking system does not have to mirror that of other countries, since our banking system is unlike that of other countries.

It is our understanding that MBA has submitted its thoughts and recommendations and we are full support of those positions, however with some emphasis based on the following.

Basel III: Risk Based and Leveraged Capital Requirements

- **Increases in Regulatory Capital**

As stated above, BCB supports a banking system with strong capital levels. We believe additional analysis must be undertaken before raising capital levels throughout the banking industry. The complexity of the proposed risk-weighting rules will have a significant impact. Operationally systems will have to change, increasing costs, time and energy, leading to a greater consolidation of the community bank industry. Since the financial crisis we have consistently heard from leaders of the regulatory agencies that community banks are a key contributor to the banking system. If this is true a more thorough data collection project should be undertaken in this area if policymakers are to truly understand the affect the proposed risk-weighting rules will have on community banks.

- **Capital Conservation Buffer**

Regulatory agencies already have substantial authority to impose restrictions on dividends or compensation at institutions facing financial difficulties. We believe that it is appropriate to leave decisions regarding restrictions on the payment of executive compensation and capital distributions to the discretion of the regulatory authorities on a case-by-case basis as opposed to by a one-size-fits-all formula.

- **Phase out of Trust Preferred Securities as Capital Instruments**

The proposed Basel III capital rule does not grandfather Trust Preferred Securities (TPS) for institutions between \$500 million and \$15 billion, which is inconsistent with the Congressional compromise language regarding the Collins amendment that was incorporated into the Dodd-Frank Act. Instead, the proposal requires the phase-out of these instruments for bank holding companies having between \$500 million and \$15 billion with annual 10% decreases in the includible amount through 2021, until the instruments are fully phased-out on January 1, 2022. BCB has issues TPS. Our legal counsel has made presentations demonstrating their belief that banks under \$500 million will be compelled to phase out TPS.

We strongly believe that the legislative intent expressed in the adoption of the DFA should be respected. This provision debated heavily during the legislative process and lawmakers determined that the final compromise language providing an exemption for smaller institutions was the correct policy decision. As a mutual bank, this provision does great harm to BCB since we have which have few options for raising capital since we cannot issue common stock. Adopting a regulation in direct opposition to the intent of Congress to would further diminish avenues to raise capital. We would be forced to likely shrink our balance sheet and limit potential growth, reducing lending in our communities, thereby reducing the amount of credit available to small businesses and consumers. The proposed rule should be revised and recognize the intent of Congress.

- **Limitation on Inclusion of Allowance for Loan and Lease Losses in Regulatory Capital**

There are various provisions in the Proposals that would force institutions to “double-count” risk elements on bank balance sheets. MBA believes that if these provisions are adopted, the final rule should also eliminate the current arbitrary regulatory limitation on the amount of an institution’s Allowance for Loan and Lease Losses (ALLL) that is includable in its capital, which is currently set at the amount equal to 1.25% of total risk-weighted assets. Banks should be encouraged to build reserves during good economic times and removing this restriction would encourage institutions to fund their ALLL.

- **Risk-Weighting of Past Due Exposures**

BCB is also greatly concerned about the risk-weighting of past due exposures in the Standardized Approach Proposal. We believe it ignores the existing processes by which financial institutions account for past due exposures and is redundant. The Proposal requires banking organizations to apply a 150% risk-weighting to assets that are 90 days or more past due or on nonaccrual status to the extent that those assets are not secured or guaranteed. Delinquent loans must be accounted for in an institution’s ALLL analysis and banks are already highly regulated in this area. The agencies have been aggressive in criticizing banks that do not recognize the need for additional capital to mitigate potential losses. In addition, banks of all sizes are under significant regulatory and legislative pressure to work with delinquent borrowers and modify loans, particularly residential loans. The Proposal discourages banks from holding delinquent assets, thereby reducing the desire to hold these assets. Banks may desire to sell

these assets as opposed to a successful workout. We believe existing accounting rules address this issue of risk sufficiently and this proposal should be eliminated from the final rule.

Conclusion

As stated above, BCB believes that the Proposals have a variety of fundamental problems and that they should be withdrawn. We are in agreement with MBA's position that the Proposals require substantial modification.

We question the understanding policy makers have of the full impact of the Proposals on the banking industry, especially community banks and the nation's economy. Once finalized, there will be no ability to reverse the impact that these rules will have on the community banking industry. We will be forced to comply with these new requirements while our credit union competitors will be exempt. This exemption, in conjunction with the credit union industry's tax exemption, will further enhance their competitive advantage and our disadvantage. In the end if these Proposals are to take effect, US community banks should be allowed to compete on level playing field.

Thank you again for the opportunity to comment on the Proposals. We respectfully ask that you consider our recommendations and those of the MBA in developing final rules.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert W. Mitchell, Jr.", with a stylized flourish at the end.

Robert W Mitchell, Jr.

EVP & CFO

Beverly Cooperative Bank