SI FINANCIAL GROUP, INC.

Rheo A. Brouillard
President &
Chief Executive Officer

September 26, 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, D.C. 20129

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 giving me the opportunity to comment on the Basel III proposals that have been recently approved by your agencies. While I, and I suspect many of my peers across the industry, support increasing the capital requirements for banks in our country, I have concerns about the proposals as presently approved.

Established in 1842, Savings Institute Bank & Trust has a very long history of meeting the needs of the eastern Connecticut communities it serves. Throughout this long history, we have been primarily a residential mortgage and small business lender in what many do not realize when one thinks of Connecticut is a largely rural market area. Many of our towns have populations below 10,000 and per capital incomes in the low $20,000's. For 170 years we have served these communities well, abiding by proper underwriting criteria, managing risk and maintaining sufficient capital to meet our needs regardless of the economic conditions at the time.

Like virtually every community bank in this country, we want to ensure that we are able to continue to serve our communities much as we have in our long and storied past. We are concerned that the capital standards as approved will impede our ability to meet the needs of our communities by reducing the amount of financing we will be able to provide to the individuals and small businesses we have historically served. You all know better than I the debilitating impact that the lack of available financing has on the economy especially the housing and small business sectors which create the jobs our country so desperately needs at this time.

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There are very few, if any, provisions of the new standards that will not impact our organization in some way and in every case I can contemplate at this point in a negative way. I'd like to comment on just a few as examples of the difficulties I envision from these standards.

1. The requirement that gains and losses on available for sale securities flow through to regulatory capital.

   Needless to say the likely volatility inherent in this concept will make capital management difficult at best and a source of regulatory consternation at its worst. This prolonged low interest rate environment only serves to exacerbate the concern since, over time more and more securities have been acquired with lower than historical yields thus once rates rise, as they will invariably do, the value of the securities will drop accordingly. I could envision a situation where we are forced to reduce our holdings to short duration Treasury Securities thereby reducing our exposure but also reducing our potential income. At the same time, I question the impact on monetary policy if the markets are only interested in purchasing short term instruments.

2. Increased risk weightings for residential mortgage loans.

   As noted above, we have been, and continue to be a significant residential lender in our market areas. Coupled with Consumer Financial Protection Bureau proposals, I find the assault on the residential mortgage industry to be largely unnecessary and harmful. While there were entities, including non-bank mortgage companies that conducted themselves improperly and there were few controls placed on the GSE's, community banks across this country by and large continued to act prudently, know their customers and follow long established underwriting practices. Unfortunately we are being forced to pay for the sins of others at a serious cost. Proposals such as QM and QRM along with these capital standards will dramatically reduce lending and harm the economy.

   Of all the proposals this is the one with the potential for the single largest negative impact on our country. The unprecedented and unnecessary ramp up in risk based capital required on residential loans will serve to reduce home ownership across all demographics but perhaps the most affected will be the lower incomes and first time home buyers. It is unusual for this group to have a significant down payment thus they will most likely be "category 2" borrowers requiring significantly more capital, the more capital allocated to individual loans simply translates into few loans being able to be made. The trickle down affect is obvious.

   Couple this with similar requirements relative to credit enhancing representations and warrants, the stipulation that second mortgages, such as home equity loans, are automatically "category 2" and can taint the existing first mortgage making it also a "category 2" and others contained in the proposal makes these new rules a drag on the U.S. economy. Why, because we have allowed others with a banking system far different from ours to dictate the standards by which we should operate. We've set ourselves on a course that will alter dramatically a banking system, one filled with many local community banks dedicated to meeting the needs of their communities that has served this country well for decades, for the sake of a future model dominated by a few large players all "too big to fail". The community banks in this country need to be able to continue to operate, to lend, to serve our customers and to contribute to the economy as a whole.

Thank you for giving me the opportunity to express my concerns and opinions.

Sincerely,

Rheo A. Brouillard
President & CEO

Cc: Senator Richard Blumenthal
Congressman Joseph Courtney
Mr. Wayne Abernathy, American Bankers Association
Mr. Lindsey Pinkham, Connecticut Bankers Association