



# EAST WISCONSIN

## SAVINGS BANK<sup>SA</sup>

October 19, 2012

### Corporate Office

109 W. Second Street  
Kaukauna, WI 54130-2499  
Phone: (920) 766-4646  
www.eastwis.com

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, D.C. 20551

Office of the Comptroller of the Company  
250 E Street, S.W.  
Mail Stop 2-3  
Washington, D.C. 20219

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, D.C. 20429

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for your continuing outreach and efforts on the behalf of community banks and Mutuals in particular, in these recent difficult and changing times. The calculator developed by the agencies has been helpful in determining some of the impact on our institution of the proposed Basel III rules.

East Wisconsin Savings Bank is a 125 year old state chartered mutual savings and loan association that specializes in 1-4 family residential real estate in our local community with \$231 million in assets. As a mutual with six offices and 52 employees for 123 years we have made loans to local individuals and held those loans in our portfolio. Our institution has been a very well rated savings bank for many years and I am very concerned about the effects Basel III would have on our bank and local economy. As a mutual our only way to increase capital is through retained earnings. If anything reduces our capital it can take years to recover.

### Other Locations

#### Appleton Office

501 E. Wisconsin Avenue  
Appleton, WI 54911-4872  
Phone: (920) 731-5858

#### Little Chute Office

1805 E. Main Street  
P. O. Box 247  
Little Chute, WI 54140-0247  
Phone: (920) 759-0532

#### Freedom Office

N3947 Columbia Avenue  
Freedom, WI 54130-7553  
Phone: (920) 788-6341

#### Kimberly Office

220 W. Kimberly Avenue  
Kimberly, WI 54136-1410  
Phone: (920) 788-3522

#### Greenville Office

W6318 Wisconsin Avenue  
Suite #4  
Greenville, WI 54942-8607  
Phone: (920) 757-9770

Build a "Wonderful Life"

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My first area of concern is increased risk weighting on delinquent loans. As primarily a home lender we know and understand the effects of the recent housing crisis on local homeowners. East Wisconsin Savings Bank has had a very low loss ratio in the last couple of years and we attribute that to our ability to work with individual borrowers on a case by case basis. Sometimes it may be beneficial to hold a loan in past due status for some time. One way to mitigate the risk of loss is to carry a larger balance in the loan loss reserve. The proposal of increasing the risk weighting a past due loans has the double effect for our bank of decreasing capital while at the same time we are holding larger amounts in our loan loss reserve. I feel that managing the loan loss reserve at the institution level is a more prudent and effective way to handle this situation.

My next area of concern is the shifting risk weighting of residential loans. As a community savings and loan we pride ourselves on long term relationships with our member owners. Our relationships often start at a young age and develop over many years. In our case a home is the foundation of that relationship. In today's economy people often purchase their first home with private mortgage insurance and then as they build equity over time continue to use that home as security for many other things. Our ability to serve and help these people could be severely curtailed if we have to calculate the wildly variable direct effect on our capital simply because of the structure or combination of products every time we make a loan.

My next area of concern addresses the change in capital requirements on mortgage servicing assets. Due to extremely low interest rates our bank just started selling loans on the secondary market. Since we place an extreme value on our customer relationships we choose to retain the servicing on these sold loans. The Basel III proposal could make it very difficult in our small bank to continue this service for our customers. Servicing loans also provides some diversified income as interest margins continue to tighten.

My next area of concern is the provision requiring all banks to mark to market their available for sale securities. Our bank has a very conservative investment philosophy. Our bond portfolio totals approximately \$66.6 million and is made up primarily of fully government backed securities. These investments have very little, if any risk of principal loss, but are subject to interest rate risk, which we manage very closely. At the present time, during a time of historically low rates, we have a positive market value adjustment in our bond portfolio of \$2 million. Shock testing our portfolio at a 400 point increase in interest rates could create over a \$10.2 million change in market value adjustment and dramatically decrease our capital under Basel III. As I stated previously, as a mutual only able to increase capital through retained earnings, it could take years for us to replenish our capital with a shift of this magnitude. During that time our ability to lend and support our local community would be severely impacted. This capital level would also cause extreme regulatory scrutiny further impacting our ability to continue providing products to our community.

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My final area of concern addressing Basel III is the overall complexity required to interpret and follow the rules. We have a staff of 52 employees in 6 offices. I do not believe that currently we have the staff or the computer systems that can generate the granularity needed to report under this proposal. Even in the unlikely event that over time Basel III does not require significant changes in capital it will certainly require additional expense on the part of our bank and the entire industry.

Mutual institutions have a long and stable history in this country of promoting home ownership. This has been East Wisconsin Savings Bank's mission for 125 years and three generations of my family. I believe there will be many unintended consequences of this regulation. I strongly urge you to consider starting over on the capital accounting requirements for community banks.

Sincerely,

A handwritten signature in cursive script that reads "Charles D. Schmalz". The signature is written in dark ink and is positioned to the left of the typed name.

Charles D. Schmalz

President/CEO