LEE BANK

September 20, 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:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that 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").

I am President of Berkshire Financial Services (BFS) a $363 million Mutual Holding Company. BFS which owns Lee Bank, a $275 million community bank located in Lee, MA, and Freedom National Bank an $87 million community bank, headquartered in Greenville, RI. Across both banks, we are integral to the local economies and focus on meeting the needs of small businesses and families and individuals in our combined 6 locations. As bank consolidation continues, increasingly small businesses and consumers turn to local community banks to meet their needs. The Basel III proposals, coupled with additional burdens placed on community banks by the Dodd Frank bill, continue to threaten the existence of community banks.

As written, the proposed Basel III rulesthat pertain to all banks regardless of size and scope of operationsare not appropriate for small community banks. While I am supportive of higher

[1] The proposals are titled: *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.*

minimum capital levels than those that exist today, the one size fits all approach is the greatest threat to community banking. As a result, I am opposed to the Basel III proposal as drafted.

Specifically, I am opposed to the following proposals.

- Revised Risk Weights for Residential Mortgages

  Increasing the risk weighting for junior liens with LTV's greater than 60% ignores the risk profiles of individual banks in terms of differences in local housing markets and the individual loss experiences of banks. For example, during the worst recession since the great depression, Lee Bank's average annual losses since 2008 on its portfolio of junior lien mortgage products was only .08%. Requiring higher risk weightings will require the bank to hold more capital against a product that for Lee Bank has been relatively risk free. This in turn will require us to increase the rates on junior lien mortgage products to our consumers.

  As an alternative, I believe that the regulatory field exams are the place for the determination of appropriate individual capital levels at banks based on an assessment of the individual banks risk profile.

- Ignoring Private Mortgage Insurance

  Requiring increased risk weights for mortgages that exceed 80% LTV and, at the same time ignoring the presence of private mortgage insurance, will hamper community banks like ours from providing mortgages for those borrowers with strong credit and income but lacking down payments. We require PMI on all mortgages with LTV's over 80%. The proposal does not differentiate between a bank like ours that requires a credit enhancement for high LTV loans and banks that do not.

  As stated above, I believe that the regulatory field exams are the place for the determination of appropriate individual capital levels at banks based on an assessment of the individual banks risk profile.

- Revised Risk Weights for Past Due Loans

  The proposal would increase the risk weighting for past due loans. While on the surface this proposal makes sense, it only takes into account one aspect of credit risk, the Risk of Default. The proposal does not adequately consider the Risk of Loss. Over the 23 years that I have been president of this organization, we have had any number of loans that have become past due. A very small percentage of these loans have actually resulted in credit losses. This was due to our history of conservative underwriting and requiring strong collateral positions.

All banks are required to establish and maintain an Allowance for Loan and Lease Losses (ALLL) that is reflective of the expected losses inherent in the loan portfolio. Rather than requiring higher risk weights across the board, each individual bank's ALLL should be reflective of increased risk of loss.

In closing, I again request that the regulatory agencies re-consider the once size fits all approach and the impact of such on community banks like ours.

Sincerely,

David J. Bruce
President