Camden National Corporation

October 19, 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. 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").

Camden National Corporation (NASDAQ: CAC) is the parent company of Camden National Bank, a Maine-based community bank operating since 1875 with $2.4 billion in total assets and a market capitalization exceeding $250 million. Because we were originally founded as a local community bank, many of our shareholders' families have held ownership in Camden National for generations. We serve over 73,000 Maine households and provide over $1.5 billion in loans to the communities we serve. Our current 38 branch locations will grow to 50 locations in Maine during the fourth quarter of 2012 following the acquisition and consolidation of fourteen Bank of America locations.

We take very seriously our core purpose, "Through each interaction, we will enrich the lives of people, help businesses succeed, and vitalize communities." In 2012, Camden National Bank was named the "Financial Institution of the Year" by the Financial Authority of Maine ("FAME"), the third such award from FAME in four years reflecting our commitment to Maine's small business community. Earlier this year, Camden National Bank was named one of "America's Most Trustworthy Companies" by Forbes. Likewise, in March, Camden National Corporation was named to the prestigious "Bank Honor Roll" by the investment bank Keefe, Bruyette and Woods.

As proud as we are of our external recognition, we are equally proud of the contribution our employees (referred to as stakeholders) make to the communities we serve. In 2011, our 425 stakeholders volunteered over 11,000 hours to various community organizations. Since 2005, our Community Reinvestment Act ratings issued by the Office of the Comptroller of the Currency have been 'Outstanding.'

[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.*

Camden National Corporation supports many of the requirements included in the Basel III proposals. Strengthening capital structures across the financial services industry is vital to ensuring our long-term viability as an industry, and recognizes the critical role we play as financial intermediaries within the U.S. financial system. We are concerned, however, that rules designed for larger organizations are being applied in a "one-size-fits-all" fashion and that the complexity and granularity of the proposed regulations will burden community banks with added compliance costs while restricting their ability to lend, thereby potentially threatening the long-term viability of these institutions.

I have itemized below the specific Basel III proposals which cause the greatest concern for Camden National Corporation and its subsidiary bank, Camden National Bank. I've noted the potential intended and unintended consequences for us, and where possible, have quantified the potential impact of the proposed regulations.

1. **Phase-out of Trust Preferred Securities as Capital Instruments:**
Currently, Camden National Corporation maintains $43.0 million of trust preferred securities issued prior to May 19, 2010 and, therefore, permanently grandfathered from application of the Collins Amendment to the Dodd-Frank legislation. Based on Dodd-Frank, it is clear that community banks with assets under $15 billion were never intended to be targeted for the phase-out of trust preferred securities. Under the proposed Basel III regulations, trust preferred securities would be phased-out from the calculation of Tier 1 capital over a period of ten years. The estimated reduction to Camden National Corporation's Tier 1 capital would be $4.3 million in 2013, and the impact on its capital ratios (using June 30, 2012 data and only making the single change to the inclusion of trust preferred securities in Tier 1 capital) is described below:

Camden National Corporation	**June-12**	**Proposed 2013**	**Proposed 2022**
Tier 1 Leverage Ratio	9.64%	9.46%	7.78%
Tier 1 Risk-Based Capital Ratio	14.97%	14.68%	12.07%
Tier 1 & Tier 2 Risk-Based Capital Ratio	16.22%	16.22%	16.22%

In 2006, when Camden National Corporation issued its trust preferred securities as an added source of capital, it did so judiciously and within regulatory guidelines. Under Basel III, the playing field has changed and our organization would lose this important $43.0 million source of capital. Once fully implemented, the result would be a nearly 2% reduction in our Tier 1 Leverage Ratio.

2. **Requiring Unrealized Gains and Losses Flowing Through Capital:**
Camden National Bank's securities portfolio of approximately $700 million at June 30, 2012 is an important tool used to manage liquidity and interest rate risk. The inclusion of unrealized gains and losses to the Common Equity Tier 1 ("CET1") capital ratio will add significant volatility to our regulatory capital ratios caused primarily by changes to the benchmark interest rate. As stated, the banking agencies' view is that the proposed fair value treatment "would better reflect an institution's actual risk." We disagree with this assessment. We believe unrealized gains and losses driven by changes in credit risk should be included in the calculation of CET1. However, gains and losses driven by changes to market rates without any consideration of the credit quality of the underlying investments, introduces extreme volatility without reflecting the actual risk inferred by large swings (favorably and unfavorably) in the CET1 capital ratio. Moreover, unrealized gains and losses are transitory in nature and could trigger prompt corrective action for an institution which has prudently managed its capital base. As a measure of an institution's actual risk, we believe market-based swings in the value of our investment portfolio are already appropriately accounted for in our financial statements and disclosures.

We are also concerned about the effect the proposed change in the application of fair value accounting could have on the community banking business model. The more extensively fair value accounting is applied to its securities portfolio and regulatory capital ratios, the greater the pressure will be to manage that portfolio to a total return, rather than as a hedge to reduce interest rate risk or liquidity risk. This could eventually change the spread relationship banks have traditionally fulfilled between managing earning assets and funding liabilities.

We foresee several unintended consequences as a result of the proposed change to the treatment of unrealized gains and losses flowing through capital; they are described below:

- Due to the potential volatility in the valuation of unrealized gains and losses on available-for-sale ("AFS") securities, Camden National Bank will be forced to either hold these assets to maturity or stay very short in duration, limiting our ability to prudently manage interest rate risks.
- Currently, 100% of Camden National Bank's investment portfolio is maintained as AFS securities, providing our organization with an effective tool to manage interest rate risk and liquidity risk. Categorizing these securities as held-to-maturity would limit our ability to manage these types of risk.
- Maintaining a portfolio of shorter-duration securities to contain market rate volatility for capital management purposes will put additional pressure on our already-contracting net interest margin. This will directly impact the earning capacity of our organization, our attractiveness to investors, and ultimately our ability to raise capital.
- In an effort to replace the earning capacity and business lost to regulatory changes, we will need to take a hard look at our cost structure and product set, which could result in larger impacts for consumers and employees.

3. **Increased Risk Weighting on Residential Mortgage Loans:**

As a community bank dedicated to the markets we serve, Camden National Bank prides itself on its reputation of working with our customers during good times and standing by them during difficult times, just as we've been doing since 1875. Over half of our loan portfolio is comprised of consumer real estate lending with $571 million of residential loans and an additional $272 million of home equity loans. We believe helping our customers secure and maintain ownership of their homes is one of our greatest responsibilities. As such, we are concerned with the changes described in the Standardized Approach to Risk-Weighted Assets.

We believe the increased risk weightings on residential mortgages and the complexities involved in calculating the new risk ratings on a loan-by-loan basis will have several unintended consequences:

- Camden National Bank will need to reassess our residential mortgage offerings in light of the new risk-adjusted basis. This will impact interest rates offered to consumers for home mortgages since additional capital will need to be set aside in order to stayin the mortgage business. Additionally, we are concemed about the impact this will have on the weak mortgage and housing market here in Maine.
- Calculating loan-to-values ("LTV's") on loans and assigning risk-weightings according to the formula described in the Standardized Approach for Risk-Weighted Assets will require the collection and reporting of new information. This will result in added costs since systems will need to be enhanced and significantly more data will need to be reviewed. These costs will fall on the consumer or our shareholders, many of whom are dependent upon dividends from Camden National.
- According to the definition of what constitutes a Category 1 Home Equity loan, the terms of the loan must dictate that the annual interest rate can increase by no more than two percent in a twelve-month period, and no more than six percent over the life of the loan. Otherwise, the loan would be considered a Category 2 loan. By definition, most of our home equity lines of credit would be categorized as Category 2 loans with higher risk ratings. Changing the risk weighting of home equity products could have a marked impact on our local economy as pricing would be changed to reflect the higher capital requirement.
- Not recognizing private mortgage insurance ("PMI") to calculate the LTV ratio on a residential mortgage exposure will increase risk ratings on the loans without accounting for the reduced risk the insurance provides. PMI allows Camden National Bank to make higher loan-to-value mortgages. Removing this tool from our toolbox, as far as capital standards are

concerned, could impede our ability to help customers of moderate means obtain homeownership.

- We are one of Maine's market leaders in Knox, Hancock, Waldo, Franklin and Piscataquis counties. The increased risk weightings and regulatory costs involved with residential lending will cause us to re-examine our ability to continue operating at current levels in this business line.

4. **Cash Flow Hedge Adjustment:**

As recognized and described within the proposed capital rules, including unrealized gains and losses on our AFS securities portfolio in the calculation of the CET1 capital ratio while excluding "… unrealized gains and losses on cash flow hedges that relate to the hedging of items that are not recognized at fair value on the balance sheet (including projected cash flows)" creates a regulatory capital asymmetry. Utilization of cash flow hedges provides Camden National Corporation and Camden National Bank with an effective tool to manage the volatility included in the calculation of CET1 caused by the inclusion of unrealized gains/losses on AFS securities. Including the volatility in the calculation on CET1 from AFS securities without considering the offsetting hedge to protect against that volatility seems counterintuitive.

5. **Increased Risk Weightings on Delinquent Loans:**

The proposed increased risk-weighting on non-residential delinquent loans 90 days past due or on nonaccrual status is redundant. Currently, reserves are set aside through our allowance for loan losses which creates a capital buffer for past due and non-accrual loans. The risk related to past due or nonaccrual loans is already actively managed. Applying a 150% risk weighting to these assets is unnecessary.

The Basel accords were initially drafted for very large, sophisticated organizations with large foreign and off-balance sheet activity that presented systemic risks to the global banking system. The complexity of these organizations and the risks they are willing to take are different than those managed within the community banking model, so it seems appropriate that regulatory guidance address those concerns. Applying that same guidance across the broad spectrum of community banks will have many unintended consequences.

Lastly, we fully support the agencies' efforts to strengthen the capital structures upon which our financial system is based. The most recent financial crisis, including recently-reported major losses on credit derivatives at a major international bank, clearly shows there is a dividing line between complex international banks and local community banks. Applying the proposed Basel III "one-size-fits-all" approach does not reflect the differences between the two distinct businesses and is misguided when applied to community banks.

More simply put, as the president and CEO of a community bank, I am just as likely to see my customers and shareholders at the local grocery store as I am in one of our branches or at the annual shareholder meeting. If implemented as proposed, Basel III will restrict our ability to serve the needs of our customers, neighbors, shareholders and communities.

Sincerely,

Gregory A. Dufour

Gregory A. Dufour
President and Chief Executive Officer