October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Basel III proposals

Ladies and Gentlemen,

Thank you for opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Guilford Savings Bank is a highly-respected community bank successfully operating for one-hundred and thirty-seven years in a relatively small shoreline community along the Connecticut mid-shore. I am proud to be the President and CEO of our $520,000,000 in assets bank, which is truly a community based bank. We know our depositors and borrowers, because we commonly work and play with most, if not all of them. Our officers and employees interact on a daily basis, whether at a football or soccer game or at a not for profit function. In total, our forty officers serve on sixty-plus, local not-for profit boards, enthusiastically sharing financial expertise. We also spend oodles of hours volunteering within the local school systems to develop strong financial acumen in our youth. The bottom line of what I am trying to convey is Guilford Savings Bank is a valued and integral part of our community and if we were not here the community would surely suffer. That is what drives me to write this letter.

I am not in favor of adopting Basel III for community banks, although I do support higher capital requirements. The original intent of the committee was to apply the rule to banks that were $10 billion or larger, not to community banks like Guilford Savings Bank. Community banks were not part of the debacle that forced the creation of Basel III, nor should they be hampered by a misdirected solution. Not only does Basel III create a heavy administration burden, applying Basel III to community banks has a multitude of unintended consequences, a few of which I will address here.

The proposed rules, by which capital adequacy will be measured, are both complex and unrealistic, and the unintended consequences are massive. Community banks know the risk associated with each asset or liability put on the books, and as historically demonstrated and to the point, community banks are not big risk takers. We develop sound and mutually beneficial relationships with our customers – an example of unintended consequences is if a community bank has a second mortgage as well as the first mortgage, all funds extended are risk-weighted higher, as if it were a second mortgage. Does it not make sense that if the bank had both a first and second mortgage with a borrower it would be a stronger relationship for both the borrower and lender? Why penalize community banks for having a solid relationship with its customers?

In addition, by risk-weighting higher loan-to-value mortgages, without consideration of private mortgage insurance, the door may be closed permanently to qualified first-time home-buyers. This stipulation is contra- productive in getting the economy up and running again, and also may be considered discriminatory, fostering "only the rich" home-ownership.

Small business lending is the community bank's niche. Please let us help in getting the economy back to normal. Of note, Community banks hold only twenty percent of the financial industry's assets, while generating more than forty-seven percent of the country's small business loans. The United States of America's financial industry is one of the strongest in the world, and very different from the central bank model in Europe.

Another concern that I have is in regards to "available for sale" debt securities being included in Accumulated Other Comprehensive Income (AOCI). The volatility that is created serves no purpose as it certainly is not our intention to liquidate the portfolio. Right now new Basel III calculations show Guilford Savings Bank's capital is fine, but when the value of our debit securities decline our capital ratio will be much more volatile and. Guilford Savings Bank's policy is to have at least one and one-half times the necessary tier one capital to be considered well-capitalized by FDIC.

I could go on and on about the unintended consequences associated with Basel III, but instead I will ask you to carefully consider **all** the consequences of adopting legislation that that benefits no one except maybe the large "too big to fail" banks, as community banks are forced to close due to unrealistic capital requirements, not bad business decisions. Community banks are the answer to economic recovery, not the problem.

Sincerely,

Margaret Y. Livingston

Margaret Y. Livingston
President & CEO