ATHOL SAVINGS BANK
Proud of Our Past, Focused on the Future
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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. 20219
regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219
regs.comments@occ.treas.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
comments@fdic.gov

Re: Basel III Capital Proposals

Ladies and Gentlemen:

I appreciate the opportunity to provide comment on the Basel III proposals[1] that have been issued for public comment by the Federal Reserve Board, the Officer of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Athol Savings Bank (the "Bank") is a $328 million state-chartered mutual savings bank that was established in 1867. The Bank has reported a Tier 1 Leverage Capital of 13.09%, Tier 1 Risk Based Capital of 25.17%, and Total Risk Based Capital of 26.44% as of September 30, 2012. As a mutually-owned savings bank we have added to capital over the course of time simply through retained earnings. The Bank has a 145 year history of serving the needs of the communities in which we serve in a safe, sound and prudent manner. The Bank operates in a pocket of north central Massachusetts which hosts a variety of financial institutions ranging from the largest national banks in the country, regional banks and credit unions. The Bank, along with our competitors, offers a diverse range of retail and commercial banking products. This diverse operating environment requires Athol Savings Bank to be nimble, efficient and to offer superior customer service to compete effectively.

[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 Disclosure and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

While we believe that there is need to reform capital we do not think this "one size fits all" approach is appropriate for community banks such as Athol Savings Bank. It was not the community banking sector that lead to the financial crisis and such proposed regulation will in fact penalize the very banks that did not contribute to the crisis. Therefore, we offer the following comments:

Incorporating Accumulated Other Comprehensive Income (AOCI) as Part of Regulatory Capital –

Presently, the Bank has a significant investment portfolio classified as available-for-sale which is principally comprised of US Treasury and Agency bonds along with a sizable Agency-based mortgage-backed securities portfolio. Additionally, the Bank maintains a portfolio of corporate bonds and equity securities. The Bank's entire investment portfolio is classified as investment grade. As of September 30, 2012 the Bank is reporting an unrealized gain of $5.6 million. Despite the investment portfolio having a relatively short duration, a 300 basis point rate shock would completely eliminate the aforenoted unrealized gain and result in an unrealized loss. Such an unrealized loss, under the proposed rules, would reduce regulatory capital based on a temporary portfolio value adjustment due to the current rate environment. The proposed rules will likely change the investment philosophy of the Bank including investment classification to held-to-maturity and liquidity measurement process.

Revised Risk Weights –

The Bank is predominantly a residential lender with a significant portion of its loan portfolio in residential and home equity loans. The Bank's home equity portfolio outstanding as of September 30, 2012 is $16.9 million with line availability amounting $16.0 million. Proposed risk rating of up to 200% on this portfolio is penalizing the Bank which has offered these products in a safe and sound manner for nearly twenty years. The Bank's loss ratio for its equity loan portfolio has been .05% over the past five (5) years and is indicative of the conservative nature and underwriting standards established. The proposed regulation is unnecessarily penalizing the Bank's equity loan portfolio with a higher risk weight than is necessary or practical.

Past Due/Non-Accrual Loans –

The proposal recommends increasing the risk weighting for non-accrual loans from 100% to 150%. We believe that the risk associated with past due and non-accrual loans have already been captured in the measurement of the allowance for loan losses. Our process of measuring the risk of loss and movement of loans to non-accrual status is evaluated and tested annually by external auditors and the regulatory examination process. The Bank's past due loans have been modest and believe that the proposed rule is duplicative.

Equity Securities –

The Bank maintains an equity investment portfolio of mature and investment grade positions. This portfolio provides a significant and increasing stream of revenue to the Bank. Additionally, the Bank enjoys the benefit of a 70% dividends-received deduction resulting in a pre-tax equivalent yield of 5.47% for the year-to-date period ended September 30, 2012. Again, increasing the risk weighting on this asset class from 100% to 300% (for those amounts in excess of 10% of Total Risk-Based Capital) is punitive.

Other –

It is understood that the NCUA is not subjecting their regulated institutions to similar capital standards. We find this particularly troublesome since these institutions already enjoy shelter from corporate income tax. As noted above the Bank must compete on a daily basis, offering similar products and services, as the credit unions in its marketplace. Not requiring similar capital standards allows these institutions to further conduct business in an unlevel operating environment.

On behalf of the Board of Trustees of Athol Savings Bank I hope you'll carefully consider these points in evaluating the final rules to be issued in exempting community banks from this regulation.

Sincerely,

Daniel J. Zona
President & CEO