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

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 that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Pentucket Bank is a $640MM state chartered mutual savings bank with three branches serving Haverhill, Massachusetts and two serving the New Hampshire communities of Salem and Hampstead. The Bank has a wholly owned subsidiary, Pentucket Securities Corporation, which is used solely for investments in equities and bonds, augmenting the Bank's earnings capabilities. As of June 30, 2012, Pentucket Bank had Tier 1 Leverage Capital of 10.27%; Tier 1 Risk Based Capital of 15.10%; and Total Risk Based Capital of 16.03%.

Our tag line, "On Track Together Since 1891" reflects our long-term commitment to our customers and the markets that we serve and we take great pride in giving back to our communities through volunteerism and monetary donations. We provide a full range of banking products and services to both, retail and business customers, building relationships by delivering high quality service. We employ over 120 people and remain financially strong in spite of the long, slow economic recovery. As a mutual savings bank, we are keenly aware of the need to preserve and grow our capital and that our primary source of capital, is largely limited to earnings.

While we support efforts to strengthen the overall banking industry by implementing safeguards to avoid the collapse of institutions critical to the health of the US and world economies, we would respectfully request that the scope of any new safeguards be carefully considered, so as not to burden community banks with highly complex and costly regulations. We would submit that the time and cost that has already been expended with the research, meetings and analysis to understand the impacts of these NPRs on our institution, and many others like us, has been significant.

Adjustments to systems and processes to capture the required information initially, and on a go forward basis, demands a considerable amount of time and resources. We are already overburdened with regulations, have experienced higher FDIC assessments, increased costs in technology and fraud related expense not to mention shrinking margins. We need to assure that, by imposing these requirements on smaller community banks; we will achieve the greatest benefits toward the ultimate goal of mitigating the most significant risks within our financial systems. It would seem to make more sense to include new standards on larger financial institutions that are involved with higher risk products and investment activities.

It's important to note that most community banks, especially mutual savings banks have remained well capitalized in spite of the Banking Crisis and the severe economic recession that began in 2008. In fact, community banks have played a major role in the economic recovery, continuing to lend prudently while many large financial institutions that had been involved in high risk activities were busy working out their own complex issues. These are the same institutions that were underwriting and investing in subprime loans and other high risk investment vehicles.

Based on the facts above I would think there should be two levels of capital rules going forward. Community Banks under a certain size and with a certain risk profile should remain under the old capital formula or a revised formula with modest changes and large "too big to fail banks" which are involved in complex and higher risk lines of business and investment activities should fall under a different set of requirements similar to the way the interchange fee restriction issue was implemented recently.

Community Banks (many of which have been around for over 100 years) have been hit very hard from many different directions in recent years. I feel strongly that the changes proposed in the Basel III capital legislation will place an additional inequitable burden on small banks throughout the country who by and large have stuck to prudent lending and investment practices over many years. It seems unfair that they would have to bear the additional burden of this new legislation. In addition, it does not make sense that mortgage companies that were a large part of the cause of the financial crisis and who have never had to deal with the same level of regulatory scrutiny that banks have are not going to be measured under the same proposed capital regulatory requirements. Does this really make sense? Haven't we learned anything from the past? If the same products and services are offered to consumers by different industry segments they should all fall under the same regulatory standards for that line of business.

Another inequity is the fact that credit unions will not come under the same capital requirements as banks as proposed under the Basel III requirements. We are already at an unlevel playing field; where credit unions are obtaining more and more rights while still not having to pay taxes. All of these inequities will only make it more difficult for small banks to compete and survive. This will lead to more bank mergers and ultimately less choice for customers. Is that a good thing for the consumer?

Community Banks are the life blood of local communities. They continue to lend to businesses and consumers and their staff members are active volunteers in the community. They also donate a significant amount of money to local charitable cause's year in and year out. In our bank's case our staff donates over 5,000 hours in community service time each year, and we make over $300,000 in donations annually to over 250 local non-profit organizations.

If these new capital requirements go into place as proposed we may be forced to cut back on our community donations and redeploy those funds elsewhere. This is at a time when community based organizations need our help the most! We will have to spend more money dealing with setting up mechanisms to track the new required data. We also may have to strongly consider cutting out lending to first time homebuyers and tighten up our mortgage lending requirements based on the new risk weightings and the fact that PMI coverage is not taken into consideration under the proposed rules.

We will also have to consider cutting back our equity investments due to the much higher risk weightings being proposed. Quite frankly, our equity portfolio has been a solid source of supplemental income over several years and has helped us maintain earnings and community charitable giving in spite of increased costs for FDIC expenses, rising regulatory costs, shrinking margins, fraud and increased IT expense to name just a few. We maintain a solid portfolio of over $117 million in high quality "available for sale" bonds and a $21 million equity portfolio made up of a diverse list of blue chip stocks.

If the new regulations are implemented with the higher risk weightings together with the inclusion of accumulated other comprehensive income being included in capital calculations the swings in the capital ratios will be dramatic and unpredictable. This will lead to more capital risk to the industry and more overall inconsistency in capital ratios.

The new risk weightings on residential mortgages based on fluctuating LTV's will be far too complex to track and maintain due to the historic swings in real estate values based on periodic changes in market conditions which can vary greatly throughout the communities we lend to. Further complicating this will be the redundancy of the new risk weightings related to problem loans where this has already been accounted for in loan loss reserve calculations.

In summary, it just doesn't seem to make good economic sense to once again hit local community banks with yet another set of financial burdens when most of them have continued to do nothing but maintain prudent banking practices, in spite of a significant increase in regulations that do little to benefit the customer and the community.

I understand the need for reform and to maintain sound levels of capital however, I ask that you strongly consider excluding community banks under a certain size from the new Basel III regulations. Another option to consider is to scale back considerably several of these proposed rule changes and set up separate capital standards for community banks and large banks based on a formula that focuses on common sense and reasonable risk management criteria.

Thanks for your consideration towards developing a more balanced approach to the proposed Basel III capital requirements.

Very truly yours,

Scott D. Cote
President & CEO