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Savings and Loan Association
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October 22, 2012

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

Thank you for the opportunity to comment on the joint proposed rules released on June 7, 2012 by the Federal Reserve Board (the "FRB"), the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation intended to implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision (the "Basel III Proposals").

First Shore Federal is a mutual savings institution headquartered in Salisbury, MD. Our association was founded in 1953, has eight branches located on the Lower Shore of Delmarva with assets of approximately $313.7 million and a core capital ratio of 11.9% as of September 30, 2012.

Like many mutual form institutions across this country, First Shore is first and foremost committed to serving our local community. We've done that for nearly sixty years – and we hope to do that well into the future. We use an advertising theme of "community minded – just like you" and we believe that it describes what this association is about. More significantly, I think our community views us in that light and as such, we've been fortunate.

We've also been fortunate to weather the economic challenges of recent years in a stable and financially strong condition. Our core capital ratio as of September 30 is 11.9% and it has increased from 9.5% over the past five years. There are, of course, numerous other measures of the financial health of a banking institution but hopefully you get the point that our institution is strong and stable. As such, we are in complete agreement of the need for a strong capital base for banking institutions and the maintenance of a safe and sound banking system.

But I want to stress our grave concern that the Basel III proposals will have a significantly negative, potentially fatal, impact on community organizations in general – and mutually formed institutions such as ours in particular. The Basel III proposals are, in our view, too broad and sweeping and will include community institutions such as First Shore in the same regulatory scheme as systemically large stock form institutions. Indeed, recent reports in the American Banker and other trade publications have suggested the Basel III Proposals have a much more stringent impact on small and mid-sized banks than on the large systemic money center banks.

Mutual form institutions do not have permanent capital stock like stock form institutions and, therefore, do not have permanent stockholders. The depositors and borrowers of a mutual institution are the residual "owners" of the institution with rights to any surplus remaining in liquidation. While there are disadvantages to being of mutual ownership, we believe that the advantages well outweigh the disadvantages. One of those advantages is that the pressure to maintain constant growth in order to support the stock price does not dominate our strategy. When it makes sense for the association to restrict its growth, we can do so. The past several years are an example of such an environment and we believe that we are emerging from this difficult economy in far better shape than we entered it ... and not coincidentally in better shape than many of our stock owned competitors.

I am particularly concerned that the various additional requirements that will be realized if Basel III is adopted, including in particular the various risk weights assigned to real estate loans, will create a confusing and extremely difficult regulatory environment for banking institutions such as First Shore that have traditionally been portfolio lenders and have in fact continued to survive and indeed thrive. Some have suggested that one of the impacts, intended or otherwise, of the Basel III proposals will be to force the extinction of mutual institutions. Under the proposed regulatory capital rules, it is conceivable that one by one, mutual institutions will be forced or scared into conversion to stock form.

Believe me, I've heard the argument for conversion quite often in my 20 years as CEO of our institution. It might be a good argument for a few insiders or investors – it won't be for the communities we serve.

There is at least one very simple way to assure that Basel III does not have the unintended consequence of eliminating the mutual thrift industry. **Specifically exempt all mutual institutions.** While organized for historically different reasons, mutual form institutions such as First Shore Federal and credit unions share a common foundation; they are non-stock form. All credit unions are organized as co-operatives which is essentially the same as the mutual form of organization. However, the Basel III Proposals do not apply to credit unions. Credit unions are exempt because there are no systemic aspects relating to them and it is accepted that they did not contribute to the recent banking crisis. Mutual form community banks, the largest of which is a sixth the size of the largest credit union, also are not systemic and did not contribute to the recent banking crisis. Yet, they are being included in the rules developed for systemically important banking institutions.

I had the honor of co-signing the comment letter as Chairman of America's Mutual Banks and we would like to add our association's support of those comments.

We appreciate the opportunity to present our views on the Basel III Proposals and would welcome the chance to discuss its position at your convenience.

Very truly yours,

Marty Neat

Martin T. Neat
President & CEO