

October 17, 2012

Mr. Robert E. Feldman, Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429  
Via email at [comments@fdic.gov](mailto:comments@fdic.gov)

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551  
Via email at [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

RE: FDIC RIN 3064-AD95, FDIC RIN 3064-AD96, and FDIC RIN 3064-AD97

Dear Mr. Feldman and Ms. Johnson:

I am a member of the board of directors of BayCoast Bank (the “Bank”) and appreciate the opportunity to comment on the Federal Deposit Insurance Corporation’s proposed Basel III Notices of Proposed Rulemaking issued in June 2012 requiring all banking organizations to comply with Basel III pronouncements and standardized approach NPR. For the following reasons, I believe that it is my responsibility as a director to let you know that I believe the implementation of this requirement will do great damage not only to our bank, but also to all similar community banks in the country. In addition, it will adversely affect the ability of such banks to provide needed services and products to local people and businesses. At a time when the politics of the moment is correctly focusing on facilitating programs and other methods of assistance for small businesses such as our bank and, more importantly, for our customers, it is unfortunate that this requirement is currently under serious consideration.

BayCoast Bank is a Massachusetts chartered bank established in 1851 that offers a variety of financial services to individuals and businesses through fifteen offices in Southeastern Massachusetts and Rhode Island. The Bank offers insurance products to consumers and businesses through its’ wholly-owned subsidiary, Partners Insurance Group, LLC (“Partners”) and investment management and trust services through its’ 80% owned subsidiary, Plimoth Trust Company, LLC, d/b/a Plimoth Investment Advisors (Plimoth”), which acts a fiduciary and provides portfolio and/or trust services to clients.

As of September 30, 2012 the Bank had total assets of \$932 million, Tier 1 Leverage Capital of 8.5%; Tier 1 Risk Based Capital of 11.2% and Total Risk Based Capital of 12.0%. Plimoth is a limited purpose trust company that currently has \$396 million of assets under management. Partners has approximately \$2.5 million in annual insurance commission income.

The Bank is completely in favor of strengthening the quality and loss absorption safeguards in the financial institutions sector. Our intention is to hold capital above the minimum required levels. While we support the minimum capital requirements, several areas are troubling and unworkable as we are a mutual bank with limited access to capital. The Bank can only increase capital with the retention of earnings for the most part. We are a local community bank, which had nothing to do with the recent economic crisis from the misuse of sub-prime loans. We have always maintained appropriate underwriting standards and understand the risks of lending and maintain an appropriate asset mix.

A major area of concern is the inclusion of gains and losses on available-for-sale securities in the common equity Tier 1 computation. The Bank currently has an available-for-sale portfolio of \$208 million with approximately \$6 million of net unrealizable gains. The portfolio is comprised of \$174 million in debt securities with approximately \$2 million in unrealized gains and an average life of three years. Additionally, the Bank has an equity portfolio with a book value of \$26 million and approximately \$4 million in unrealized gains. The equity portfolio is comprised of high quality dividend paying stocks. We do not have a significant concentration by industry or by issuer.

The impact of a "300 basis points increase in rates" on the Bank's debt security portfolio would be significant and would wipe out the Bank's current earnings despite the fact that the portfolio has a short duration. The Bank has been very successful over the past few years of reallocating funds from the debt security portfolio to meet the loan demand of both residential and commercial borrowers. The equity portfolio has never had an unrealized loss even in the most significant market downturn. The dividends on the equity portfolio have a favorable tax benefit through the dividends received deduction. The current yield on the portfolio is 3.5% with a fully taxed equivalent yield of 4.5%.

The higher risk weights could cause the Bank to consider the following:

- In order to avoid market swings, the Bank will "shorten up" durations of their investments which will mean lower yields and thus lower earnings.
- A bank will have to understand how different asset classes react to interest rate swings (i.e., mortgage-backed securities versus Treasuries or municipals versus Treasuries). This will cause stress in certain markets and may shut off credit completely to certain groups and maturities. Our bank is a big purchaser of nonrated, bank-qualified, local municipal bonds. Many times we purchase the longer-term, 10- to 15-year bonds. If the troubling provisions stay in place under this proposal, a likely scenario would be to no longer support "long maturity or local bond issuances."
- Given the precarious position our government is in, a downgrade in the federal government credit rating appears likely. The result could be devastating on bank capital.
- Non-recognition of the "tax effect" of both gains and losses distorts the true gains or losses as they relate to capital.
- Banks may elect to reclassify to "held to maturity." Liquidity and liquidity ratios would be distorted if this occurs.

We would also question the limitation of 1.25% of risk-based assets in the loan loss reserve. Why would limitations be placed on an allocation of capital that serves as a "capital conservation buffer"? Banks should be encouraged to act in a countercyclical fashion, building reserves with pretax dollars during good times. This entire proposal is about more capital. For community banks, this is the best way to accumulate total capital. It should be encouraged, not discouraged.

The proposed rules regarding residential mortgages will make mortgage loans more difficult to obtain in many markets such as those served by community banks. Mortgage loans held on our books (generally adjustable rate loans) are used as a tool to manage interest rate risk. We cannot "afford" to hold 30 year loans, especially in this interest rate environment, due to the inherent interest rate risk. Requiring higher risk rating of adjustable rate loans requires more capital, increases the cost of the credit, and will serve to reduce the availability of credit. Over the past few years we have committed \$7.5 million per year in CRA loans to first-time home buyers and affordable housing program with higher loan-to-values.

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These loans have enabled the - all adjustable rates because of the expected holding time of the home and the general level of interest rates where ARMs have usually had lower APRs.

The Savings Bank is also actively engaged in home equity lending. The impact of a "300 basis points increase in rates" on the Bank's home equity portfolio are punitive and will restrict availability of credit and increase the cost of that credit.

Increasing the risk weighting of delinquent loans is redundant. Delinquent loans must be considered in the Allowance for Loan and Lease Loss analysis. Community banks are already highly regulated in this area and are criticized severely if we do not adequately recognize the need for capital to mitigate these possible future losses. Further, this could impact our aggressiveness in moving loans that become ninety days past due off the balance sheet. This reduces our willingness to work with a borrower to remediate the issues and, hopefully, allow them to stay in their home. In short, this redundancy is unfair and unnecessary.

In summary, the implementation of Basel III as proposed would significantly and negatively alter the way community banks serve their customers and communities and is unacceptable as we strive to improve and grow our local economy. Thank you for your time and consideration. I ask that you address the concerns of banks like mine by acting on this important issue.

Respectfully submitted,

Ronald J. Lowenatcin, Director  
BayCoast Bank

cc The Honorable Scott Brown U.S. Senate  
337 Summer Street  
Boston, MA 02210

The Honorable John Kerry U.S. Senate  
One Bowdoin Square  
Tenth Floor  
Boston, MA 02114

The Honorable Barney Frank, U.S. House of Representatives  
2252 Rayburn Building  
Washington, DC 20515

The Honorable James P. McGovern, U.S. House of Representatives  
438 Cannon HOB  
Washington, DC 20515

The Honorable William R. Keating, U.S. House of Representatives  
315 Cannon HOB  
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