Savings Bank
of Walpole

October 19, 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[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

At this late time in the comment period, I'm sure that you have received hundreds, perhaps thousands of letters from bankers, trade associations and lawmakers on the elements of the Basel III proposals that, if implemented as written, will create significant negative consequences to the banking industry, particularly the community banking industry. I surmise that these letters discuss the challenges that community banks will have putting in place the sophisticated systems to measure residential mortgage risk weightings; the impact that having the unrealized gains and losses in the Available For Sale investment holdings flowing through regulatory capital; the impact of higher capital levels will have on the ability for banks to lend at a time when the economy is looking for us to extend credit; the impact on those banks who service loans who will likely get out of this business and turn it over to servicing centers that are already struggling to accomplish what consumers and legislators are looking for them to do; the impact to consumers in a workout arrangement when community banks will no longer work with troubled borrowers due to the higher capital requirements for these loans; the fact that the allowance for

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

loan and lease losses already captures the risk of loss and capital adjustment for problem loans; the impact of the timing of this proposal when banks are being deluged with other Dodd-Frank requirements from the Consumer Financial Protection Bureau; and finally, the overall question of one-size fits all in adopting international capital standards for all banks regardless of size and complexity in the United States. I believe all of these well-articulated issues are, in and of themselves, sufficient to pull back the proposed Basel III regulations but I wanted to provide a different perspective from a $320 million mutual bank from southwest New Hampshire.

I'm puzzled by what I see as a conflicting message for the banking industry and the purpose of stronger capital requirements. Basel III will require higher levels of capital and additional costs for banks to implement and measure this capital and makes the industry less desirable for attracting outside investment. Our industry competes with every other one for this necessary capital. If we're becoming less attractive as returns on equity will be lower (and the level of risk to try to retain current levels of ROE increase) we will lose the inflow of capital to more lucrative industries such as technology and pharmaceutical research. At a time when we're trying to strengthen the banking industry with higher levels and better forms of equity, we appear to be recommending through legislation ways to weaken it by detracting outside capital.

Over the 137 years that our bank has been in existence our Trustees and management have focused on running a bank for the benefit of our customers, employees and the communities we serve. Operating a bank with the only goal of ensuring its existence in perpetuity is one of the most difficult challenges a company in any industry faces. Failure at any level is not an option. This includes bankruptcy, merger, stock conversion, receivership, or any other outcome that results in a different ownership structure and different mission from what our forefathers wanted.

Managing a bank for our stakeholders for eternity sounds a bit idealistic but it's exactly what we do each and every day here at Savings Bank of Walpole. The only way to carry this out as it has been done over the past nearly century and a half is by paying close attention to our capital levels and the risks that are embedded in our balance sheet. We believe strongly that the level of capital necessary to run a well-managed mutual bank for its unique constituents is directly proportionate to the level of risk, short-term and long-term, placed on the balance sheet of the bank. This risk cannot always be captured with formulaic methodologies put forth in regulatory capital standards for a one-size fits all banking industry. We've operated for a very long time maintaining levels of capital over the well-capitalized Tier 1 leverage capital ratios but more importantly managed the bank with risk-based capital levels well above the Tier 1 and Total risk-based guidelines. Although we believe that our ability to aptly manage risk supports capital levels below these thresh holds, we recognize that in an industry designed and required to be safe and sound, minimum levels need to be set and adhered to. As we manage the bank with the primary objective of being around forever, our inherent risk profile must be, and is, low. During our last two examinations from our primary regulators (the FDIC and State of New Hampshire Banking Department), the examiner in charge in both cases conveyed to our Board that if they were managing a bank, it would look exactly as our does. Our *choice* to maintain levels of Tier 1 capital around 8 percent has been strategic in that we've avoided the fee-laden products that so many of our competitors have adopted. We've chosen to maintain high levels of personal service for our customers benefit which comes as a tradeoff to short-term higher earnings. We've made conscience decisions to maintain benefits to our customers, our communities, and our employees and have done so while managing a well-run bank from a risk perspective. Our customers and community love us. We are a breath of fresh air in an industry that has been tainted in so many ways. We are a stable corporate citizen, a dependable employer and an economic strength in our community. We are a rock at a time when such a certainty is needed.

What does Basel III mean to Savings Bank of Walpole? It's a threat to our business model and perhaps our existence. As written, we will be required to increase our capital ratio for Common Equity Capital Tier One over the next several years to meet minimum levels. What will be the results is a question of great concern. As a mutual with no access to private capital, we have two options to increase this capital ratio: increase our earnings or reduce the size of our bank. In the first case, we are operating in unprecedented times with our central bank managing an extended low rate environment that is compressing our net interest margins to all-time lows. This coupled with restrictions in other income sources due to regulatory changes and the increasing costs to comply with new regulations make augmenting capital through higher earnings a tremendous challenge. The opportunity to earn greater returns is only available by accepting unwarranted risks to do so. Extending investment maturities or lowering underwriting standards will temporarily aid the bottom line but may put us out of business in a few short years. This seems to be contrary to the goals of Basel III. Shrinking the bank means limiting our services to existing and new customers. As we have no funding sources other than local community deposits, reducing the size of our balance sheet means turning our back on those who depend on us. As stated earlier, we are a welcome alternative to our larger national and regional banking competitors in the eyes of our customers and to deny them the opportunity to do business with us will ultimately damage our brand. Again, I don't believe that the intent of Basel III is to tarnish or permanently damage the brands of community banks like ours.

I've spoken to many regulators who believe that we need to preserve the community banking model in our country. But I see proposed changes in regulations such as Basel III prompting a consolidation due to the inability of smaller banks to "go it alone". Consolidation, and the lack of de novo bank applications, presents our customers with fewer choices; choices like we're providing our customers here in New Hampshire; choices that our customers prefer over many alternatives. If we truly believe that community banks are necessary for the economic vitality of our main streets in America, we need to provide relief and revisit Basel III. For community banks, and especially mutual banks, the current capital rules are working. Please consider a carve-out from Basel III for this important group of banks in our country. Now is not the time to impose more stringent requirements on an industry so vital to helping and supporting an economic recovery that starts with our consumers and small businesses.

Thank you for your consideration of these comments.

Sincerely,

Gregg R. Tewksbury
President and CEO