River Valley
BANK

August 20, 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 (collectively the "banking agencies").

I am the Controller for a $1 billion asset family owned Sub Chapter S bank located in North Central Wisconsin. River Valley Bank was purchased by the Ronald Nicklaus in the early 80's who subsequently sold it to his two sons who continue to run the Bank today. In the past eight years Todd and Greg Nicklaus have grown the Bank from $400 million to $1 billion through thoughtful acquisitions and a disciplined small business lending growth strategy.

Seven years ago the Bank purchased seven branches in the Upper Peninsula of Michigan from National City Bank. This acquisition was made possible through additional shareholder investment by the Nicklaus family and the issuance of trust preferred securities. Within two years the Bank had more than doubled the loan portfolios of those branches due to the deep commitment the Bank has with all the communities it conducts business in. The Nicklaus family sees themselves as entrepreneurs and not bankers. The family embraces the entrepreneurial spirit and loves nurturing it within its communities. Being family-owned the Bank's management is constantly reminded that it needs to operate in a way that will help the community because its shareholders send their kids to school in those communities and has friends and family within those communities.

The Bank has been able to remain family owned and grow through the utilization of trust preferred securities. Without access to this form of regulatory capital the Bank would have never been able to significantly grow within the communities it serves. The Bank recently looked into raising common equity, but the dilutive effect upon existing shareholders was considered too great. Community banks are basically shut out from the capital markets because the investment is considered too small by most investors. The Dodd-Frank law never intended for this type of instrument to be phased-out for community banks due the detrimental impact it would have on thousands of community banks throughout the nation. The consolidation of community banks would result in reduced small business lending which would have a severe impact upon small communities throughout the country. Without access to credit, companies located within small communities would be unable to expand and entrepreneurs would be unable to start their businesses. If the Bank were to unable to count its trust preferred securities as regulatory capital it would have to slow its small business lending, and possibly shrink its balance sheet in order to remain a well-capitalized bank. This would have an enormous negative impact upon our communities as we are one of the largest small business lenders in North Central Wisconsin and the Upper Peninsula of Michigan.

The proposed rule should be revised to fully recognize the intent of the Collins amendment by permanently grandfathering outstanding Trust Preferred Securities for institutions between $500 million and $15 billion.

As controller of the Bank, I manage a $125 million investment portfolio which contains US Agency securities, US Agency issued mortgage-backed securities, and municipal securities. Currently the Bank has an unrealized gain on its investment portfolio of $4.1 million. If interest rates were to rise a mere 300 basis points the portfolio would have an unrealized loss of $10 million. A Bank of our size is unable to plan for and manage a swing in regulatory capital of that size. Looking back to historical interest rate cycles, a 300 basis point change in interest rates is the normal change. To manage the impact of unrealized gain and loss changes the Bank would have to shrink its investment portfolio which would have a negative impact upon the Bank's liquidity. The Bank would also have to shorten the duration of the security portfolio which would mean fewer municipal securities within the portfolio. The Bank mainly buys municipal securities from local communities within Wisconsin and the Upper Peninsula of Michigan so again smaller communities would suffer from this rule change. Banks in general would be unable to hold longer termed securities such as mortgage-backed securities issued by Fannie Mae and Freddie Mac. This would increase the interest rates charged to all mortgagees because investors would demand higher yields to take additional interest rate risk on their balance sheets.

The proposed rule should be revised so that unrealized gains and losses on available for sale securities that reside in accumulated other comprehensive income do not flow through capital.

Once again I would like to thank you for the opportunity to provide comment on the Basel III proposals and strongly urge you to consider the comments stated above, and all comments submitted by community bankers throughout the country.

Respectively Submitted,

Glendon O. Peterson, CPA
Vice President – Controller
River Valley Bank