Tri-Valley Bank

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October 16, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Delivered by e-mail: comments@FDIC.gov

Re: BASEL III FDIC RIN 3064-AD95, RIN 3064-AD96, RIN 3064-D97

Mr. Feldman:

Thank you for providing our industry the opportunity to comment on the proposed "BASEL III Rules." By way of background, our bank is a small bank located in rural southwest Iowa. Our market consists of the entire spectrum of the people who live and work in our area. We finance homes, automobiles, farming operations, and agricultural businesses.

Because we can be considered a "non complex" institution, many of the proposed changes to how capital is calculated will have little or no impact upon us. Some of the proposals however will have a dramatic impact.

1. Unrealized gains and losses on available for sale securities (AOCI)

   Tri-Valley Bank has a securities portfolio of approximately $40 million. Almost the entire portfolio is designated AFS. Our portfolio has grown in the last two to three years because of low loan demand and a corresponding decrease in loans. The decrease is largely the result of a very robust "Ag" economy. We have total assets of approximately $72 million and leverage capital of $6.9 million for a leverage ratio of 9.5%. A 1 percent change in interest rates would reduce the "value" of the portfolio by $2.3 million, reducing our capital to $4.6 million, and lower our leverage ratio to 6.39%. A 4% increase would render the bank insolvent. The irony is that the bank's greatest risk is the assets the industry considers the safest.

There are some technical problems with the proposal. First, the AOCI only focuses on one aspect of the Bank's balance sheet. Loans are not considered and long term low rate deposits which fund the securities are not considered as buffers to the change in market value.

The pricing mechanism for many of the securities is inefficient. Many of the bonds are small issues with limited trading activity and are priced not as actual sales but by a matrix method, very similar issues from different geographical regions of the United States may have very different prices, even though the quality and terms are essentially the same. The market can be irrational and prices may change quickly and dramatically based upon unsubstantiated news reports.

2. Mortgage Servicing assets:

   This proposed change will have no impact on our bank at this time.

3. Trust Preferred Securities

   This proposed change will have no immediate impact upon our organization.

4. Residential Mortgages

   Aside from the complexity of making a determination of which category to use for calculating the bank's capital, we expect this proposal will have only a small impact on our mortgage loan business. Our 1-4 family mortgage business accounts for less than 20% of our lending and less than 10% of our total assets.

   In addition, because of the very specific nature of the regulations concerning 1-4 family real estate and commercial real estate, we believe the proposals of BASEL III are making the same mistakes made in BASEL I, where specific risk weights were assigned to certain segments of the economy, e.g. 1-4 family real estate loans. We are convinced the granularity of the regulations will lead to other distortions that are as yet unknown and almost certainly unintended. The risk weights should be consistent throughout regardless of the type of lending and the issue of risk should be addressed in the Reserve of Loan and Lease Losses. Uniform risk weights throughout the industry ignores the reality that the exact same lending in one geographical area may have a history of being extremely safe but may be risky in another.

   The "risk weight" of capital in excess of the loan exposure begs the question of what is the purpose of the reserve for loan and lease losses. We currently allocate reserves based upon GAAP requirements. The weights in excess of 100% of the exposure are either duplicitous or without the analysis management must currently undertake to determine adequate reserves.

   We maintain the 1-4 residential loans we make in our portfolio. We seldom sell into the secondary market. The reason is many of our residential loans are "non-conforming." We manage our risk in this market and have helped provide housing to many in our market. To the

extent additional capital is required or additional costs are involved because of the regulatory overhead we must either pass the costs on to our customers or exit the business.

5. Credit enhancing representations and warranties

These requirements will not impact our bank.

6. Home equity lending

We do not anticipate this issue to have a significant effect on our capital structure. However, we have addressed this issue earlier. It is a mistake to establish blanket capital requirements for one particular market segment. The arbitrary nature of the rule is bound to create distortions in the market place.

7. High Volatility Commercial Real Estate

We doubt these requirements will have much of an impact on our bank. The biggest issue will be to develop systems to monitor the details of these loans as a class.

8. Increased risk weights for delinquent loans

This section contains an unspoken assumption that there is a standard approach to handling delinquent loans, by assigning an arbitrary risk-weight of capital. The approach accelerates the need for additional capital beyond what may actually be needed.

Currently the proposal would have limited impact on our existing portfolio. We have no loans over 90 days past due, and only one loan treated as non-accrual. These circumstances can change very rapidly, requiring additional capital from one quarter to another.

We anticipate the proposal would make it less likely for the bank to pursue a workout strategy and instead proceed directly to liquidation. Such a situation would likely be exacerbated by the cyclical nature of the problem perhaps increasing the losses sustained.

9. Exclusion of certain Deferred Tax Assets:

We do not anticipate this provision to have much impact upon our bank. We do feel the inclusion of intangibles and other non capital items on the balance sheet tends to make the balance sheet confusing. If the item means nothing, then why include them on the balance sheet?

10. Small Savings and Loan Holding Company

This does not apply to our institution.

11. Scope and granularity of proposed rules

    We anticipate we have the required information to satisfy the information required. We do not have the information in the form necessary to calculate the various risk weights. We expect over time our core data processing systems would be enhanced to generate the information. The enhancements will take time and result in additional expense to the bank.

    At this point, it is hard for us to quantify the time and money needed to comply with the data, system and personnel requirements. However, it is clear that compliance with this change will require training, a modification of our business processes and additional staff time to gather the information. We are presently burdened with additional costs because of regulatory oversight. We anticipate additional costs and burdens as the new consumer regulations are implemented. We are at the bottom of a long term low interest rate environment. We do not need one more change to impact our bottom line.

12. Cash flow hedges

    This rule will not have an immediate impact on our bank. The rule also effectively limits our ability to take advantage of the tool in the future.

We understand the need to require additional capital for enterprises that carry higher amounts of risk. We do not believe a cookie cutter approach suggested by the BASEL III regulations addresses the fundamental problem of how much risk is acceptable for the amount of capital. The best assessment of risk within an institution is a careful and thorough analysis of each institution.

Respectfully Submitted,

K. Alan Deines, CEO

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