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Dear Robert E. Feldman,

I am writing you to share my deep concerns regarding Basel III. As Sr. Vice President at Valley Bank & Trust, a community bank in Colorado, I am greatly disturbed by the implications these requirements will have on my career, my bank and my community. The impacts of Basel III on community banking are so severe, it should be withdrawn and completely revised to ensure rational capital requirements for our industry.

I understand the need for greater capital in the face of the financial crisis, which is why Valley Bank continues to maintain capital ratios over 4% above guidelines. Yet Basel III lays higher capital requirements on top of these levels. Valley Bank has abided by latest best practices in increasing our Allowance for Loan and Lease Losses (ALLL), yet Basel III requires these potential losses be redundantly risk-weighted in our capital. These insurmountable demands on capital will hinder our ability to fund daily operations.

The increase in risk-weightings place an even greater strain on capital. Home and commercial construction are risk-weighted up to 150%. Since these loan types account for a high portion of our portfolio, the effects on capital will be traumatic. Delinquent loans become so damaging to capital that we will be forced to resolve them immediately via default and foreclosure as opposed to a reasonable restructuring in the customer's best interest. To ensure no delinquency, we would need to demand tough and restrictive loan payoff strategies from customers or avoid providing certain types of lending altogether to our local small businesses.

If Basel III is implemented, current capital levels will have to be increased aggressively, requiring us to limit credit access to our communities at a still unstable economic time. We will suddenly compete with all other banks for the little capital investment available, increasing the costs thereof and leaving many banks out. Investments will be more difficult to get once capital increases and our ROI thus decreases. Banks by necessity will shut their doors or consolidate, leading to even greater concentration. Basel III will result in fewer community banks and more "too big to fail" banks – the opposite of what was intended.

I agree the concept of uniform capital requirements is a good one, but it needs to be tailored to the US system. Banking in our country is incredibly complex, and Valley Bank & Trust is wholly different from nationwide banks by size, complexity, product lines, risks, markets, motivations and plenty more. By designing a single strategy for all banks, capital requirements are too high for some and too low for others. I therefore request you halt implementation of Basel III and design appropriate rules designed, written and clarified to allow Valley Bank to continue to provide the credit needs of our communities appropriately and soundly.

Thank you for your prompt action,

Douglas C. Scherrer  
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