BANK

September 27, 2012

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

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

To Whom It May Concern:

Valliance Bank is a $260 million community bank domiciled in Oklahoma City, Oklahoma, chartered in 2004. We have a total of three locations; one each in Oklahoma City and Norman, Oklahoma; and McKinney, Texas. We are focused primarily as a business bank with an emphasis in small business, residential real estate construction and professional and executive services.

We have grown significantly since the bank was chartered on October 20, 2004 and were profitable after fourteen months of operation. While the economic sluggishness that has plagued much of the nation has not affected Oklahoma as severely, our growth has been slowed and we actually contracted during 2009 and 2010 to make certain that we had sufficient capital and liquidity to suffer the overall economy. We have emerged in good stead and we find our bank today very well capitalized and postured for future growth.

When I first heard about Basel III, I barely took notice as I mistakenly assumed that like past Basel requirements, they would affect only the largest banks, primarily those banks doing business internationally. When I discovered that all banks, including community banks would be impacted by Basel III, I was indeed surprised. What surprised me even further was what I discovered as I began to read and learn more about the Basel III capital requirements. Many of these requirements would seriously impact capital levels and potential growth opportunities for community banks, requiring banks to raise more capital for growth in an environment where capital is difficult to find and with future growth of traditional lending lines of business negatively impacted by Basel III, will make raising capital even more difficult.

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Areas of Basel III that concern me the most regarding the future of Valliance Bank are the overall increased capital requirements, the impact of accounting for the value of available-for-sale (AFS) securities on our capital account, the risk weighting of certain real estate loans and the additional capital conservation buffer framework. I will expound of these issues below.

The proposal requires that all unrealized gains and losses in AFS must flow through to the common equity tier 1 capital (CET1) a new capital terminology. Valliance Bank presently has $258,395,566 in total assets and at this time holds $45,379,804 in AFS securities. Many of these securities have been acquired in recent years during and since the recession and accordingly, have very low yields. When interest rates begin to rise, as they eventually will, the overall value of our securities portfolio is going to be negatively impacted and under the proposal will negatively impact capital. Will we have to create an additional capital buffer as a cushion during portfolio value fluctuations? Should my bank and other banks dump their securities portfolios now and shrink our assets, creating havoc in the markets for certain classes of securities, especially municipals? If so, we are seriously limiting our ability to make loans and serve our communities in the future as the economy recovers because we will have taken resources out of the bank that would have gone into loans and other community investments. We are further concerned about how this proposal might impact our asset/liability function and our liquidity and contingency funding plans, much of which revolves around our securities portfolio, which many banks the size of Valliance hold as a liquidity buffer. We are a community bank and should not be thrown into the "mark-to-market" frenzy that has consumed other segments of the financial services industry. On top of all that, we would have the cost of software to monitor our securities portfolio position and additional employee time spent monitoring our securities portfolio, both of which would lead to less time and money available to serve our customers.

The proposal assigns increased risk weighs for residential mortgage loans based on whether they are "traditional mortgages". I do not need to tell the FDIC, the mortgages that community banks make as "traditional" versus the "traditional mortgage loans" made by larger banks are not one and the same, a fact which I know the FDIC understands. Small banks simply cannot suffer the interest rate risk of holding longer term "traditional mortgage loans" in their loan portfolios. The likely result of this proposal is that it will cause us to have to raise additional capital. Our earnings will also be impaired as we will likely have to decrease our lending activity in this area or discontinue it altogether, as many banks have already had to do. Obviously, the regulatory burden of monitoring this segment of our portfolio will increase. This part of the proposal will also drive mortgage business into the hands of our competitors, especially the large multistate lenders to the ultimate detriment of our communities. Many rural mortgage borrowers are already confronting a market in which banks are making fewer mortgage loans if not withdrawing from this line of business completely. This proposal will only exacerbate this already serious problem.

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Furthermore, with regard to real estate lending the proposal defines "High Volatility Commercial Real Estate" (HVCRE) as acquisition, development and construction commercial real estate loans. These loans will bear a risk weight of 150%, 50 percent higher than the present 100% risk weight. Valliance Bank has historically made numerous commercial construction loans that would fall into this HVCRE category. By increasing the risk weighting to 150%, our bank's capital will have to be bolstered, the cost of our loans will have to increase and our local construction industry could potentially lose jobs as a result.

With regard to the capital buffer and the generally higher level of capital required by the Basel III proposal, this has a disproportionate impact on community banks. Many community banks have a very limited market for raising capital, especially in today's uncertain economic environment. Creating a new capital buffer in addition to the current capital buffer, which we call the Allowance for Loan and Lease Losses, seems especially punitive. Our bank and most community banks have maintained not only adequate levels of capital, but capital levels well in excess of our larger counterparts. Our loss experience certainly supports that the current level of capital and loss reserves we hold and have held have been more than sufficient to suffer the worst economy since the Great Depression. What kind of economy are you expecting us to raise capital for? Something worse than the Great Depression? Our bank and most community banks simply do not participate in the high risk, high reward activities of the world's largest banks. To be asked to hold capital as a buffer against the kinds of economic volatility that those types of assets and investments face is misplaced in our bank and community banking generally.

Finally, the overall regulatory burden that the Basel III proposal will require is especially onerous for a small community bank like ours. We are still reeling from the present and future costs of compliance with Dodd-Frank. It appears that Basel III will require us to change our internal reporting systems and will require additional employee training, not to mention additional employees. None of these requirements will allow us to serve our customers and communities any better, in fact just the opposite. By pulling money out of capital and earnings, the proposal robs our customers and communities of the resources that would have typically been employed to meet their needs, rather than the subjective needs of the regulatory establishment.

The increasing cost of compliance for our bank is becoming a real concern for management, our directors and shareholders. We believe we fill a vital role in our community and in the lives of our individual and business customers. It would be devastating if our bank and banks like ours had to make the decision to sell to a larger bank just to avoid the increasing cost of unnecessarily higher levels of capital imposed by the new "international" capital rules and the regulatory cost imposed by those rules.

Valliance Bank is committed to maintaining a well-capitalized bank and is second to none in its appreciation of strong, well-capitalized community banks, able to meet the needs of their customers and communities. Nevertheless, excessive capital levels will only serve to reduce credit availability to customers and communities and could ultimately reduce many critical financial products and services being offered in many rural communities as banks have to vacate certain lines of business in order to right size their capital account under Basel III. This is one of my greatest concerns; that my bank and community banks like Valliance find themselves trading services and critical business products to our communities and our customers for increased capital levels to satisfy Basel III capital requirements. The very strength of the community banking model is our willingness to serve our communities in ways that larger banks simply will not as evidenced by the undisputed fact that small community banks, while making up only ten percent of the total banking assets of this county, make forty percent of the total small business loans. By bartering loans for capital, we run the risk of seriously slowing the flow of capital into the small business economy, which is the segment of the economy that creates the most new jobs. The ultimate unintended consequence of Basel III could well be economic stagnation in one of the most important job creating segments of our economy; small business.

I strongly urge the Federal Deposit Insurance Corporation to carefully consider the damaging impact that the Basel III proposal will have on Valliance Bank and banks like ours and make the decision not to impose these new international capital rules on community banks.

I sincerely appreciate your thoughtful consideration of this important matter.

Sincerely,

VALLIANCE BANK

Brad Swickey

Brad Swickey
President & CEO