VALLEY BANK AND TRUST

October 15, 2012

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 FDIC RIN 3064-AD95, RIN 3064-AD96, AND RIN 3064-D97

Dear Mr. Feldman:

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. The collective banking agencies have a difficult job in these trying economic times to help maintain and insure the safety of our insured institutions and overall consumer confidence in the banking system. I thank you for your efforts

I am president of a $70 million Ag bank located in west central Iowa. We are a traditional community bank that cares deeply for our customers and the communities that we serve. Our staff of 14 employees has an average of 23 years of banking experience and all but one of our staff members grew up in our trade area. We truly care about the overall success, both financially and otherwise, of our bank, our communities and our customers. Our bank actively serves our market area with many different deposit, loan and wealth management products.

I am very concerned regarding the BASEL III proposals as currently structured. I fear that if enacted as currently proposed the resulting effects will very negatively impact our bank and in turn very negatively affect rural America and our entire customer base. I would like to emphasize, however, that I am completely in favor of strengthening the loss absorption safeguards in the financial institutions sector. Our bank presently has over 9% Tier 1 capital, over 14% risk-based capital and we are continuing to add to our loan loss reserve. Our intentions have been and will continue to be to hold capital levels well above the minimum required levels. However, several areas of BASEL III are troubling and I believe unfair to smaller, community banks such as our bank, especially given the difficulties community banks have with access to capital and in many cases the high concentrations in certain asset types that most community banks hold.

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The first major area of concern I have is the inclusion of gains and losses on available-for-sale debt securities in the common equity Tier 1 computation. To begin with, the timing of this proposed rule is greatly compounding the problem, since we are now at a period of historically low interest rates. As interest rates begin to rise, capital under this proposal will move rapidly in a negative direction which would very negatively affect our bank's Tier 1 capital creating a restriction on our bank's investment activity, most notably in the lending sector. Another issue with regard to capital in our bank's case is the impact on legal lending limits. Our bank competes against larger, commercial banks as well as the Farm Credit System. Our ability to quickly respond to customer credit needs in an efficient, cost effect manner is one of the competitive advantages we have over our larger competitors. Implementing this accounting change would have the effect of lowering our legal lending limit which in turn would impact the manner in which we could serve our customer base. In a worst case scenario, our bank loses customers due to our inability to meet their reasonable credit needs. Additionally, a potential and I'm sure unintended response by most banks to this legislation could be to hold securities as "held to maturity" rather than "available for sale". A response such as this could potentially create liquidity or liquidity ratio issues which would seem to be a much unintended, negative consequence of this legislation. As for credit risk taken in the investment portfolio, existing rules for other-than-temporarily-impaired (OTTI) investments provide a mechanism for credit losses and risks to be reflected in capital.

Secondly, the proposed changes to risk weighting residential loans seem extraordinarily burdensome and excessive for community banks. As based upon the definitions, our bank originates almost entirely 100% "traditional" mortgage loans. Currently these loans have a risk weight of 50% while the proposed legislation would increase risk weights to as much as 200%. I recognize that much of the banking crisis we have experienced over the last few years can be attributed to "loose" underwriting of residential real estate loans. However, legislate those practices rather than penalize sound banking practices. Our ability to underwrite "traditional" or "prudent" residential loans is key to our ability to serve our communities and provide opportunities to our customer for them to own homes. Continuing down the path that BASEL III suggests will halt the flow of residential lending credit in our rural areas and create additional work and cost that will ultimately be borne by the consumer. Even further complicating this issue is the fact that we will not be able to simply "assign" a weighting when the loan is booked. Rather we will have to continually re-evaluate the risk weightings based on changes in collateral values, past due status and other risk factors. This factor alone only penalizes what in the past has been a very soundly underwritten part of most community bank portfolios, including our own.

Lastly, I'd like to comment on the proposed change for risk weights on delinquent loans. We are fortunate that due to careful underwriting we have a very low delinquency rate currently. However, this could easily change with worsening agricultural economic conditions. This rule seems to be overkill in that we have already set aside reserves for delinquent loans or loans that our analysis shows will be difficult to collect. By proposing to increase capital we hold on past due loans, we are basically being required to set aside capital twice. Risk regarding past due loans should continue to be managed through the loan loss reserve guidelines and not by layering on additional capital requirements through increased risk weightings.

In conclusion, our bank has no way to completely ascertain the full impact of this massive proposal because of the amount of work it will take to understand the rules and how they apply to our balance sheet. We will likely be required to hire a team of consultants to implement the re-assessment of each individual loan in our portfolio with the new risk weights, re-program our core processing software to handle the new coding requirements and then create the necessary reports to analyze the data.

As I stated above, while I support the overall goal of strengthening the financial system by increasing the level and quality of capital that banks hold, these rules are designed much more for large multi-billion dollar global financial institutions than the business practices of smaller, community banks. We urge the agency to repeal this proposal so we may continue serving our communities and help strengthen our local economies.

Sincerely yours,

Todd P. Sadler
President/CEO
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