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BANK & TRUST COMPANY

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October 22, 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[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Springs Valley Bank & Trust is $230 Million, 110 year old, community bank located in Southern Indiana with four locations in three communities.

While there are many troubling provisions within the Basel III proposals, our major concerns are focused upon three of the most impactful to our franchise: the inclusion of other comprehensive income (mark-to-market), the revision of risk weightings, and the cap on ALLL for inclusion in the capital calculation.

First, we will be forced to hold additional capital as a hedge against the increased volatility that mark-to-market implications will have on our capital. Right now, that calculation would be favorable to capital with rates at historic lows but it is a veritable certainty that rates will rise over time which will have a negative mark-to-market impact on the investment portfolio we hold.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

Secondly, the proposed revisions to risk weightings will affect our ability to meet the loan needs of our communities. The complexity of mortgage risk weights based upon loan-to-values will create a regulatory burden for us. At a time when recovering from the soft housing market is a major focus, the increase in risk weightings will generally impair home financing by raising borrowing rates and limiting borrower access to credit. Raising risk weightings for balloon mortgages and non-performing loans unnecessarily penalizes our ability to manage interest rate risk and unfairly duplicates the purpose of the allowance for loan losses (ALLL).

Finally, some if not all the ALLL should be included in Tier I capital since it represents our first line of defense against capital absorbing losses.

Having just emerged from a major economic recession and with the volatile global economy we find ourselves in, it is tempting to tinker with capital levels and corresponding capital provisions. Capital is the lifeblood of banking, on that we can agree, but we implore you to consider unintended consequences as these important policy considerations are debated.

Sincerely,

Jamie Shinabarger

Jamie Shinabarger
President/CEO