D. L. Evans Bank

"Idaho's Hometown Community Bank Since 1904"

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October 10, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: FDIC – RIN 3064-AD95 (Basel III NPR)
FDIC – RIN 2064-AD96 (Standardized Approach NPR)

Dear Mr. Feldman,

D.L. Evans Bank is submitting the following comments in regards to the new Basel III NPR and Standardized Approach NPR Regulatory Capital Proposal. D.L. Evans Bank Board of Directors and Management have reviewed the proposed rules in detail. There are several items within the proposed rules that cause great concern for D.L. Evans Bank, as a Community Bank, and D.L. Evans Bancorp, as a single bank holding company.

D.L. Evans Bank is a community Bank founded in 1904 in Albion, Idaho. Incorporating with $25,000 in capital, the Bank has now grown to $105 million in capital, $968 million in assets, $779 million in deposits and $571 million in loans as of June 30, 2012. The Bank has grown and prospered over the years and now serves communities throughout Southern Idaho.

The Board of Directors (Board) and Management of D.L. Evans Bancorp and D.L. Evans Bank (Bank) have been proactive in responding to the many challenges that have resulted from the recent economic crisis in the United States. We believe the Bank is emerging from these distressed economic times in a position of financial strength that will allow us to take advantage of future opportunities. However, the new capital rules may place undue challenges and restrict the Bank from continuing to grow and serve our communities by providing loans to our customers in order to support the economy.

There are several items in the proposed rules that create challenges for our institution and we believe for all institutions. First, having unrealized gains and losses on Available for Sale (AFS) Securities flow through regulatory capital. The proposed Basel III NPR changes the regulatory capital treatment of unrealized gains and losses on all AFS securities, including debt securities whose valuations primarily change as a result of fluctuations in a benchmark interest rate as opposed to changes in credit risk, with these

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changes flowing through common equity tier 1 capital. By having the unrealized gains and losses on AFS securities flow through regulatory capital, it will create substantial volatility in the Bank's regulatory capital ratios.

The Board has established that the securities portfolio is intended as a core earnings vehicle for excess liquidity and is the principal source of secondary liquidity. Therefore, D.L. Evans Bank has an investment policy that is conservative by nature with reasonable limits established for duration and price volatility.

As of August 31, 2012, D.L. Evans Bank has a $244 million investment portfolio consisting of government agencies, mortgage backed securities (MBS's) and collateralized mortgage obligations (CMO's) guaranteed or issued by GNMA, FNMA, FHLMC, and Idaho bank qualified municipals. The portfolio currently has an effective duration of 1.65 and a price volatility of (7.69%) (with interest rates up 300 bps), at the lower end of the Bank's policy limits in the current interest rate environment. The investment portfolio has an unrealized gain of $5.1 million that would be included in regulatory capital under the proposed rules. If interest rates were to increase 300 bps the unrealized gain would be an unrealized loss of $6.8 million, an $11.9 million fluctuation in regulatory capital. Tier 1 capital to total assets would go from 10.86% to 9.75% a 111 bps reduction. Tier 1 capital to risk based assets would decline from 17.74% to 16.07%, a 167 bps reduction and total capital to risk based assets would fluctuate from 19.00% to 17.35%, a 165 bps reduction.

By having unrealized gain and losses on AFS securities included in regulatory capital it will force banking organizations to maintain higher capital levels against price fluctuations, and could potentially limit effective interest rate risk and liquidity management by reducing duration risk in investment portfolios in order to limit regulatory capital volatility.

It would be our suggestion that unrealized gains and losses related to debt securities whose valuations primarily change as a result of fluctuations in interest rates be excluded from regulatory capital, specifically U.S. government and agency debt obligations, including MBS's and CMO's issued by GNMA, FNMA, and FHLMC, and general obligations issued by states or other political subdivisions of the United States.

Second, the phase out of trust preferred securities from tier 1 capital for institutions having less than $15 billion in assets will have a dramatic effect on many community banks' who have grown their banks over the years with trust preferred securities as a component of their tier 1 capital. D.L. Evans Bancorp has issued $16 million in trust preferred securities since 2002. The phase out period would require the Bancorp to reduce tier 1 capital by $1.6 million per year for the next 10 years, reducing tier 1 capital by $16 million.

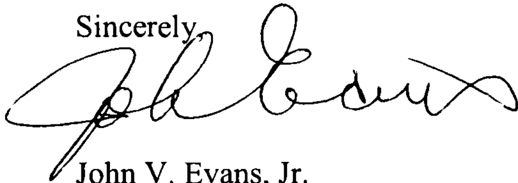
The original Collins amendment did not require any "capital deductions" for debt or equity instruments issued before May 19, 2010 by a Bank holding company with total consolidated assets of less than $15 billion, as of December 31, 2009. However, the

Overall, the Board of Directors and Management of D.L. Evans Bancorp and D.L. Evans Bank strongly disagrees with the proposed Basel III NPR and the Standardized Approach NPR. Applying one set of capital rules to all financial institutions, no matter the size or risk profile is unfair. Community Banks should not be placed in the same category as a large systematically significant financial institution, with higher risk. In summary the areas that cause us the greatest concerns are the following:

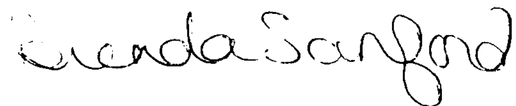
- inclusion of unrealized gains and losses on securities in common equity Tier 1 capital
- phase-out of trust preferred securities form Tier 1 capital for institutions that have less than $15 billion in assets
- appropriateness of the capital conservation buffer for banking organization that are not systemically significant
- the impact of the proposed risk weighting of first and second lien mortgage's on product available and the anticipated burden of implementation
- increased capital requirements for unused commitments with an original maturity of one year or less that are not unconditionally cancelable

We believe that applying one set of rules to all financial institutions, regardless of size and complexity is inappropriate and needs to be reevaluated. The proposed rules would have a direct impact on the capital component for D.L. Evans Bancorp and D.L. Evans Bank. We request that you review the proposed rules and the concerns that we have identified and consider changes and delay implementation.

Sincerely,



John V. Evans, Jr.
Chief Executive Officer



Brenda Sanford
Chief Financial officer