Valley National Bank

Gerald H. Lipkin
Chairman of the Board, President & CEO

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 Capital Proposals

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.

Since 1927, Valley National Bank has operated under the auspice as a local community bank serving the needs of our customers while providing a catalyst for economic growth in our neighborhoods. We operate 210 branches located throughout northern and central New Jersey, Manhattan, Brooklyn, Queens, and Long Island, and employ nearly 3,500 local staff. Over the past 85 years, we have always been mindful of our responsibility as an essential component of economic growth and vitality in the neighborhoods where we do business.

During Valley's 85 year history, the Bank has never posted a net loss in **ANY** quarter. We operate under a community bank model and always put the interest of our customers and communities first. We are a $16 billion asset bank that still lends and accepts deposits like any small community bank. We did not make subprime mortgages during this last business cycle, but rather stayed on the sidelines conducting business as usual so that our customers were secure in the knowledge that Valley will continue to serve their needs for generations to come. In the last 10 years and more so since the "Great Recession" Valley has witnessed an assault on traditional community banks both from the public and government regulators. We have experienced significant increases in regulatory cost, approximately $45 million on an annualized basis, or nearly 14% of our entire non-interest expense base while simultaneously being restricted on traditional sources of non-interest income. Valley was an innocent victim of this debacle and has been paying a very substantial price since 2008. For reasons, unbeknown to Valley, regulators have assumed a position where a Bank's size dictates the riskiness of its balance sheet, irrespective of the type or risk nature of the business engaged. Certain, non-traditional community bank models are in need of better oversight and stricter capital requirements. However, layering the same standards on the traditional community bank platform will lead to unintended consequences that will prolong the economic recovery and ultimately mandate future legislation to undo what is currently being developed. It is for these reasons that we oppose many of the onerous Basel III regulations.

In a time of uncertain economic conditions, when financial institutions are working with local businesses, customers and investors to sustain a meaningful recovery, any legislation that would further increase the regulatory burden on banks would be detrimental to our industry, our community and the entire country. The misguided tenets and complexities of Basel III will only limit the availability of credit throughout our communities and impose significantly more costs, restrictions and burdens on community banks in our industry.

The following aspects of Basel III are of particular concern to us:

- Allowing unrealized gains and losses to flow through capital will negatively impact the ability of Valley to contribute to any significant recovery efforts in a rising interest rate environment when capital will decline as a result of rising rates. Valley, as with other banks, needs flexibility under Generally Accepted Accounting Principles (and the forthcoming new regulatory liquidity ratios) to keep its security portfolio partially in available for sale for liquidity purposes. This change will likely limit our balance sheet flexibility and force more securities to be classified as held to maturity or for us to shorten the duration of investments, negatively impacting our earnings as a result.

- Requiring Valley to deduct any unrealized gain and add any unrealized loss on cash flow hedges would also have a particularly negative impact in light of the proposed adjustments that require unrealized gains and losses to flow through capital. In essence, it diminishes our incentive to manage interest rate risk.

- Requiring a section of the Bank's balance sheet to be marked to market and impact the Bank's regulatory capital position while restricting the impact of mark to market adjustments through regulatory capital for other segments of the balance sheet does not make prudent sense.

- Increased risk weighting for residential mortgage loans threatens to reduce our lending in this very important business segment. As a significant mortgage lending and refinancing institution, this reduction in activity could cause substantial damage in the fragile housing market.

- As a Bank that has never participated in the subprime mortgage craze that contributed to the current economic crisis, we are proud of our conservative lending culture. Unfortunately, we continue to pay the consequences for the irresponsible business activities of those few banks that chose to pursue reckless underwriting standards for the sole purpose of short-term gains.

The proposed risk weighting of residential mortgages will severely affect our ability to lend. The proposed assignment of risk weightings to individual loans will also place additional administrative burdens on our operations, forcing us to add more staff just to assign and maintain risk weightings.

- The proposed change in risk weighting for home equity and second lien loans will force our Bank to reconsider the value of our home equity business segment. We are, as discussed above, a very conservative lender however the requirements of Basel III related to junior liens will require more capital against loans which we have had very little historical losses. A better alternative might be to limit by regulation the LTV to the level regulators consider safe, rather than the tracking and calculations required under the new capital rules.
  - An unintended consequence of the change in risk weighted assets will be on the expansion of small businesses throughout our communities, as many initially utilize home equity loans to fund the initial capital required to commence operations. The additional costs and restriction of credit will most definitely have a negative impact on the growth of small businesses in our marketplace.

- We maintain one of the most respectable delinquency ratios in the banking industry. The proposal to increase risk weights on delinquent loans will require us to set aside additional capital. We feel that risks related to delinquent loans should continue to be evaluated through the loan loss reserve guidance and not through additional capital requirements. Since the loan loss reserve originates with a charge through earnings and therefore as a reduction of capital this would be the equivalent of double counting delinquent loans through capital which is counter productive and further reduces capital levels.

- Phasing out Trust Preferred Securities burdens community banks, like Valley, in their capital plans by forcing them to add additional capital of another type. Since trust preferreds are almost always at the holding company level, keeping it in place should have little if any impact on bank capital amounts. The Federal Reserve approved the issuance of trust preferreds as capital and any new capital issued as a replacement will be more costly than the existing trust preferreds.

Additionally, only the largest financial institutions will be able to adapt quickly to these regulations by mitigating the risks of capital volatility through non-traditional accounting relationships. Without the resources, knowledge or expertise, this places community banks at a severe competitive disadvantage.

The overwhelming majority of U.S. banks played no hand in the economic collapse of 2008. Make no mistake; we do not call for complete deregulation. We fully support an increase in the amount of capital that banks are required to hold based upon their risk profile. However, Basel III is not the solution needed in times such as these and the cumulative effects of the items mentioned above will have a negative impact on most of the community banks in the country.

It is our sincere hope that lawmakers will reconsider Basel III regulations and engage the banking community on issues that we face in our industry. With over 1,000 pages of complex and costly regulations, Basel III could damage credit markets even further by restricting the lending capacity of community banks nationwide. A far simpler method of measuring capital is required. Creating a dialogue between industry executives and experienced regulators is the only way we can produce meaningful regulations. Together, we can work on creating a road to economic recovery in our communities and restoring faith in our banking system.

Very truly yours,

Gerald H. Lipkin

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