



BANK OF THE VALLEY

September 5, 2012

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, DC 20429

Re: Proposed Regulatory Capital Rules (RCR's)

Dear **Mr. Robert E. Feldman**;

Bank of The Valley supports the Agencies' effort to improve the quality and quantity of regulatory capital and to build additional capacity into this banking system to absorb losses in times of economic stress. While the applicability of certain provisions to smaller banks, such as ours, was not expected, absent the Accumulated Other Comprehensive Income (AOCI) the notices of proposed rulemaking (NPR'S) do not appear to present an immediate compliance concern for most banks from a pure ratio perspective. In our view, there are several provisions that could create significant volatility and inconsistency in reported capital ratios. We believe these provisions could impact the effectiveness of the proposal and have negative consequences for the banking system as a whole.

We see the AOCI provision is a matter of great concern, both in terms of creating significant validity and inconsistency in reported ratios and in potentially introducing economically unsound decision making constraints. As a result, we do not believe that AOCI should be included as a part of regulatory capital. We also believe that the Capital Conservation Buffer should be limited to 2.0 percent and incorporated as part of the existing PCA capital framework. Further, there are several provisions of the Standardized Approach NPR that if left unadjusted, could also create significant volatility and inconsistency in the reported ratios, particularly the risk-based adjustments for mortgage exposures and past due loans.

We thank you for the opportunity to comment on this proposal and do hope that serious consideration be taken to make the necessary changes. Smaller community banks such as ours do not need any more stress placed on our capital.

Again thank you for your consideration.

Sincerely,

Larry McPhillips
President
Bank of The Valley

MEMBER
FDIC

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