**From:** Jerry W. Bradley [mailto:JBradley@myvalleybank.com]
**Sent:** Saturday, September 08, 2012 10:59 AM
**To:** 'regs.comments@federalreserve.gov'; 'regs.comments@occ.treas.gov'; 'comments@FDIC.gov'
**Subject:** Basel III Comment Letter

I am writing to comment on the joint proposed rules on minimum regulatory capital and the standardized approach for risk-weighted assets titled *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action* and *Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements*.

There are many pieces of the proposed regulations that will curb future capital from entering the community banking arena, thereby destabilizing a major component to any self-sustaining economy. I trust that the importance of community banking is well understood by everyone involved in this process, while I admit to the understanding of the difficulty of the balancing act required from the regulatory community to both further ensure the safety and soundness of the industry while allowing for profitability to capital stakeholders. However, the issues addressed below with the proposed rules do not increase the safety and soundness of the industry nor do they increase shareholder transparency. They simply add to community banks' regulatory burdens, reduce profitability and add to financial statement volatility without any benefits.

In addition to implementing new minimum capital requirements, the proposal completely revises many of the current risk weights that community banks use to calculate their regulatory capital, particularly for mortgages, the complexity of which may likely drive community banks out of the mortgage business entirely. The risk weights for residential mortgage assets will further deplete capital levels by requiring additional capital cushions for certain residential mortgage loans that do not fit within a narrow definition of assets qualifying for preferable treatment. As a community bank, we will need to conduct an analysis of our residential loan portfolios to understand which assets will fall within the associated residential loan categories and how their classification will impact future capital levels. Depending on the outcome of this analysis, it will affect our appetite for certain residential mortgages in the future. For example, penalizing high LTV loans with credit-enhancements will curb future lending. Second mortgage liens should not carry 150 to 200 risk weights if we want an economic recovery. Raising risk weights for residential loans generally will impair home financing by raising borrowing rates and limiting borrower access to financing. Finally, raising risk weights for balloon mortgages penalizes community banks like Valley Bank for attempting to mitigate interest rate risk.

Additionally, the proposals also seek to redefine the components of core regulatory capital by focusing on common equity including accumulated other comprehensive income (AOCI). As you are well aware, AOCI captures unrealized gains and losses on certain investment securities and has the potential to demonstrate extensive volatility depending on the sensitivities of bank security portfolios to changes in interest rates and external credit spreads. In addition, these challenges are amplified by the fact that interest rates are at historical lows setting the stage for future capital level declines in an eventual rising interest rate environment. Larger banks can hedge the impact of interest rates on AOCI; community banks cannot and as such will be forced to hold additional capital to compensate for increased volatility, which will affect our ability to lend.

In summary, while Basel III may be an appropriate standard for the "too big to fail" and "systematically important" banks of the world, it goes to great extremes in its attempt to reduce risk in the financial services industry without regard for the small community banks with simplified balance sheets and customary lending activities who serve their individual communities. Basel III will severely restrict how we operate our bank and will force many changes to our business model that are both disturbing and unwarranted. For the community bank sector, it will make competing with the mega-banks all that more difficult and challenging.

I respectfully ask that you support the exemption of community banks from Basel III and allow community banks to remain on Basel I.

Sincerely,

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