Valley Bank

August 27, 2012

Mr. Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

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*.

The size, scope, and impact of these proposals represent a challenging obstacle for community banks such as mine. The proposed rules are presented for review during a time of extensive economic difficulty for both the domestic and global economy. In conjunction with other existing and proposed regulations, the rules significantly jeopardize the community bank model by forcing community bank shareholders to seek alternatives to further investment as new regulatory burdens potentially hamper growth in any number of areas.

In addition to implementing new minimum capital requirements, the proposal revises many of the current risk weightings that community banks use to calculate their regulatory capital, particularly for mortgages, potentially resulting in driving community banks out of the mortgage business entirely. The risk weightings 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 preferred 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 weightings if we want to stimulate economic recovery. Raising risk weightings for residential loans generally will impair home financing by raising borrowing rates and limiting borrower access to financing. Finally, raising risk weightings for balloon mortgages penalizes community banks like Valley Bank for attempting to prudently 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). AOCI captures unrealized gains and losses on certain investment securities and has the potential to demonstrate excessive volatility depending on the sensitivities of bank security portfolios to changes in interest rates and external credit spreads. In addition, these challenges are magnified by the fact that interest rates are at historical lows setting the stage for future capital level declines in an inevitable 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" banks of the world, it goes to great extremes in its attempt to reduce risk in the financial services industry without regard for the community banks with simplified balance sheets and customary lending activities who serve their individual communities. Basel III will restrict how we operate our bank and will force many changes to our business model that seem to be unwarranted. For the community bank sector, it will make competing with the mega-banks all that more difficult and challenging and, in many cases, impossible.

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

Sincerely,

K S Meade

Kevin S. Meade
Executive Vice President and
Chief Operating Officer