**CITIZENS & NORTHERN BANK**

October 22, 2012

Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation
comments@fdic.gov
RIN 3064-AD95 and RIN 3064-AD96

Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket R-1430 and R-1442 RIN No. 7100-AD 87

Re: Regulatory Capital Rules, Including Basel III NPR and Standardized Approach NPR

Dear Federal Banking Agencies:

Citizens & Northern Bank is a local, independent community bank providing complete financial, investment and insurance services through 26 full service offices throughout Tioga, Bradford, Sullivan, Lycoming, Potter, Cameron and McKean counties in Pennsylvania and in Canisteo and South Hornell, NY. At June 30, 2012, our total assets were $1.316 billion.

We understand the importance of maintaining a strong capital position, and have every intention of continuing to do so. However, many of the provisions of the NPRs would impose a great deal of complexity and cost for our Bank, and would limit our flexibility as it relates to credit and investment-related decisions. We are particularly troubled by the following aspects of the proposals:

- Available-for-sale securities - Regulatory capital ratios would become much more volatile if unrealized losses were to be included in the determination of Tier 1 capital. We believe the practical effect will be to shorten the average duration of many portfolios. For our Bank, we may become reluctant to invest in long-term municipal bonds. The need to maintain a larger cushion for the possible effect of rising interest rates may also hinder us as it relates to acquisition opportunities.

- Lending – For our Bank, and for many community banks, the provisions related to lending seem to impose a punishment for which no crime was committed. Throughout the previous five years as well as the first nine months of 2012, our nonperforming assets have been less than 1% of total assets, and our average net charge-offs as a percentage of loans over the past five years was 0.11%. Over this same period of time, we have seen loan demand drop off substantially, as average loans outstanding has fallen in each of the three previous years and is lower in the first nine months of 2012 as compared to 2011. Our greatest concerns related to lending-related provisions include the following:

- The NPRs arbitrarily impose higher risk-weightings on residential mortgages based on loan-to-value (LTV) ratios without consideration of other factors. This may result in more loan applications being rejected as well as risk-weighting calculations that do not reflect the true level of risk associated with some of the loans.

- The more detailed risk-weighting calculations for loans will increase our cost and the complexity associated with preparing quarterly regulatory reports, for no obvious benefit.

- For residential mortgage loans that we sell to the secondary market, the proposed changes in treatment of "credit-enhancing" representations and warranties could be problematic. In particular, we are concerned that we may be required to maintain 100% risk-weighted capital for mortgages for which no credit enhancements were in place, but which contained standard, boilerplate representations and warranties required by government agencies. We have this concern both for transactions that have been completed, as well as for any future transactions that would occur after the proposals would become effective.

In summary, we believe the proposals, if they become effective, will: (1) restrict our ability to provide credit to credit-worthy individuals and businesses, and (2) reduce our earnings. We do not believe the provisions of the proposals necessary for community banks, such as ours, to provide safe and sound banking practices. Further, we do not believe the proposals will benefit our employees, shareholders, customers or our communities. Accordingly, we respectfully request the proposals be withdrawn or, at a minimum, the onerous provisions noted above re-evaluated or removed.

Sincerely,

By: Charles H. Updegraff, Jr. (JB)
Charles H. Updegraff, Jr., Chairman, President and CEO

By: Mark A. Hughes
Mark A. Hughes, Executive Vice President and CFO

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