Citizens' Bank
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MEMBER FDIC

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October 13, 2012

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue,
N.W Washington, D.C. 20551

RE: RIN 3064-AD95 a.k.a. Regulatory Capital NPR

Ladies and Gentlemen:

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 (collectively the "banking agencies").

Below are the comments of Citizens' Bank regarding the proposed rule-making known as BASEL III, Regulatory Capital NPR. Citizens' Bank has been in operation for 33 years in Baldwin County Alabama. We maintain 4 branches in our county and are truly a community bank. We do not engage in derivatives, proprietary trading and other risky broker/dealer activities which contributed to the financial crisis. We feel that the proposed rules are detrimental to our bank and community banking in general. The financial crisis has led to the belief that all banks are equal and that all banks contributed equally to this financial crisis. The proposed rules are written to prevent another financial crisis. We agree that another financial crisis would be devastating to the country and that appropriate measures should be taken to avert another crisis. However it is wrong to fundamentally change the business models of those banks that did not create the financial crisis in the same manner as those larger Wall Street banks who were direct contributors to the crisis. The proposed changes would potentially lead to significant catastrophic changes in the community banking business model.

BASEL III is an international agreement aimed at preventing a global financial crisis. As a community bank we only do business in one county in Alabama. It seems unlikely given the simplicity of our business model that the same rules would apply to large global and multi-national banks as to small community banks. These rules will hamper our ability to grow and serve the community in which we operate. Our projections indicate that in a modest 6% growth environment our capital ratios would continually decrease without additional capital injections, due to increasing loan balances and losses in AFS securities portfolio. We assumed that if loan demand had returned the market was in recovery and therefore the immediate impact to the securities portfolio would be a decline in securities prices.

The inclusion of AOCI in Tier 1 capital will introduce potentially serious volatility into the regulatory capital ratios. In current market conditions it would likely provide a benefit to the bank however as rates increase the inclusion of AOCI could quickly swing to a negative impact. In some banks the inclusion of AOCI could mask underlying quality issues in other asset classes if the bank presently has a securities portfolio that is significantly mark to market positive. Additionally, it seems counter intuitive that as the economy improves from its current position, bank's capital ratios would see a negative impact from this interest rate volatility. This section of the proposal introduces interest rate sensitivity into the capital ratios and further this interest rate sensitivity will only be applied to one asset class. If the underlying credit quality of the asset has not changed and if at maturity the bank is expected to receive all of its principal investment, it is not appropriate to account for any temporary market change in the bank's capital position. Market changes and interest rate sensitivity will place community banks in an extremely volatile position when the underlying principal investment was never at risk. Certainly if any banks principal investment is at risk, earnings and capital should be affected such as through the current OTTI impairments. It appears that the only useful scenario for including AOCI is if the regulatory body governing a specific bank feels that based on a bank's deteriorating financial condition that those securities would be liquidated to meet its operating needs in the near term. This proposal could encourage banks to classify more securities as HTM which would hamper liquidity. Additionally it could cause the banks to shorten their duration to a point where there would be little AOCI which would have a negative impact on the bank's profitability. A strategy of shortening duration targets will negatively impact the longer term bond market. Longer terms bonds primarily consist of MBS in excess of 10 years and municipal issuers. This proposal stands to greatly reduce the funding sources for these longer term bonds if they are no longer useful in the community bank's portfolio holdings.

As a Sub S bank this proposal unfairly favors banks in a "C" Corporation status as their taxes are paid as part of normal operations. In Sub S classification the tax burden is shifted to the shareholders. In the event that a bank is profitable but cannot pay dividends under the proposed capital conservation buffer, it places an undue burden on the bank's shareholders. This could make it difficult for Sub S banks to raise capital in the future as investors may favor "C" Corporation banks where they do not face the possibility of personal tax liability based on the operation of the bank. At a minimum this proposal needs to acknowledge the Sub S status of many U.S. banks and make allowances for their shareholders to meet their tax obligations. Additionally in our state we already have regulations over the payment of dividends. If the bank is not in an acceptable financial position it is a violation of state banking code to pay dividends. Any deviation to this code requires prior approval of the State Banking Department.

Additionally, the proposed rules do not apply to our main competitor, which are the credit unions. These changes will give credit unions an additional unfair competitive advantage over community banks and will result in the loss of customers for banks. They will not face the capital consequences of traditional banks in regards to residential lending. Ultimately a shift in customers from banks to credit unions will have a negative impact on the entire economy as credit union's non taxable income would be increasing while bank's taxable income would be decreasing. This will lead to a reduction in revenues for local, state and national governments which depend on taxes to provide critical services to their communities.

Sincerely,

Andie Nabors Noonan
Chief Financial Officer

cc: John Harrison, Superintendent Alabama State Banking Department
Senator Jeff Session (via Fax)
Representative Jo Bonner (via Fax)
Senator Richard Shelby (via Fax)
Representative Spencer Bachus (via Fax)
House Committee on Financial Services (via Fax)

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Jennifer J. Johnson, Secretary
Board of Governors of the Federal
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20th Street and Constitution Avenue,
N.W Washington, D.C. 20551

RE: RIN 3064-AD96 a.k.a. Standardized Approach NPR

Ladies and Gentlemen:

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 (collectively the "banking agencies").

Below are the comments of Citizens' Bank regarding the proposed rule-making known as the Standardized Approach NPR. Citizens' Bank has been in operation for 33 years in Baldwin County, Alabama. We maintain 4 branches in our county and are truly a community bank. We do not engage in stated income lending, excessive LTV ratios or incentive programs that compensated lenders for such risky activities. The financial crisis has led to the belief that all banks are equal and that all banks contributed equally to this financial crisis. The proposed rules are written to prevent another financial crisis. We agree that another financial crisis would be devastating to the country and that appropriate measures should be taken to avert another crisis. However it is wrong to fundamentally change the business models of those banks that did not create the financial crisis in the same manner as those larger Wall Street banks who were direct contributors to the crisis. The proposed changes would potentially lead to significant catastrophic changes in the community banking business model.

The definition of category 1 loans seems highly unrealistic. It is counterproductive in terms of interest rate management to have loans without balloons or the ability to re-price according to market rates. As a result most community bank residential loans will fall into the category 2 classification and the risk weights proposed will make it unattractive to increase loans in the residential mortgage product type. We were unable to determine where the criteria originated from for category 1, except that they were based on loss history during the recent financial crisis. It would be beneficial to determine if this loss history was solely from traditional banks or if it included mortgage companies, Fannie, Freddie and private label mortgages. Non bank loan structures and underwriting are historically different from banks.

In any analysis of our banks' losses during the financial crisis, our losses on 1-4 family residential mortgages were not the result of loans re-pricing at balloons or from rate resets. Our losses were from people losing their jobs, death of the borrower or from the inability to sell homes in the depressed market environment. Balloon loans are an important part of the community bank's continued success and ability to serve its markets. Community banks typically borrow short term funds from their customers in terms of deposits and reinvest those funds for a similar term within the communities they serve. We have been making these loans since well before the financial crisis and should be able to continue this practice without penalty in terms of higher risk weights. The penalties for making these type loans from this proposed rule making and additionally from the rule making of the CFPB will likely eliminate this product offering in community banks. This will ultimately lead to fewer options for consumers and a reduction in credit availability for consumers desiring to purchase a home.

It would never be our objective to foreclose even in the event that a customer's rate had reset higher than they were able to support. Our first option would be to restructure as a TDR and not foreclose. Our bank has seen foreclosure as the last option.

Due to the standardized approach making it less attractive to lend in the residential mortgage markets, banks would likely look to other areas of lending such as commercial real estate and C & I. This will hurt the consumer as they will have fewer outlets in which to obtain permanent or construction financing for residential real estate.

Additionally if stated income loans are included as part of the historical losses which were used to create the new criteria, then the criteria is unduly punitive to bank's such as our bank. Our credit policy has never allowed stated income loans as we require income verification on all consumer loans where the borrower's aggregate debt to the bank exceeds $10,000. Again it appears that community banks are being held accountable based on the losses and exposures created by the risky lending practices of non bank mortgage lenders and large commercial / wall street banking organizations participating in the securitization of home mortgages. We do firmly support the need for income verification but do not feel that the 1-4 family residential loss history of the recent financial crisis which likely includes stated income loans should be applied to those banks where prudent underwriting standards existed. As noted above our loss experience in regards to 1-4 family residential loans was not due to the risky underwriting practices that were prevalent in the larger commercial banks and the non bank mortgage companies.

Additionally the proposed rules do not apply to our main competitor, which are the credit unions. These changes will give credit unions an additional unfair competitive advantage over community banks and will result in the loss of customers for community banks. They will not face the capital consequences of traditional banks in regards to residential lending. Ultimately a shift in customers from banks to credit unions will have a negative impact on the entire economy as credit union's non taxable income would be increasing while bank's taxable income would be decreasing. This will lead to a reduction in revenues for local, state and national governments which depend on taxes to provide critical services to their communities.

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