



CITIZENS BANK

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LOCATIONS:

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Marthasville

16020 State Hwy. 47
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Phone: 636-433-2551
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October 1, 2012

Jennifer J. Johnson, Secretary Office of the Comptroller of the Currency
Board of Governors of the 250 E. Street, SW
Federal Reserve System Mail Stop 2-3
20th Street & Constitution Av.N.W. Washington, D.C. 20219
Washington, D.C. 20551

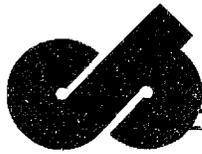
Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

The purpose of this letter is to comment on the Basel III proposals. Today I used the Capital Estimation Tool provided by the federal banking agencies. Using data from our June 30, 2012 Call Report and taking into consideration the risk weight changes for 1-4 family residential real estate loans, past due and nonaccrual loans, and commercial real estate loans, Citizens Bank (Certificate # 14488) would remain a well-capitalized bank. However, the proposed rules for the standardized approach for risk-weighted assets that become effective in 2015 would lower our Tier I and Total Capital ratios by 15%.

Citizens Bank is a \$170M bank and does not have a complex balance sheet. Our investment portfolio consists of government-sponsored agencies, such as Federal National Mortgage Association, Federal Loan Mortgage Association Corporation, but mostly Federal Home Loan Bank and Federal Farm Credit Bank. The remainder of our portfolio consists of bonds issued by school districts and municipals in our own county. We do not own any structured notes, as defined by the Call Report instructions. As of June 30, 2012, almost 29% of our loans were loans secured by 1-4 family residential properties and 25% of our loans were secured by owner-occupied nonfarm, nonresidential properties. As you can see, Citizens Bank is a community bank that provides loans to the families and business people in our community. The proposed regulation regarding the risk-weighted assets is a concern because currently 1-4 family residential real estate is counted under the 50% risk category. With the proposed regulation, a 1-4 family residential real estate loan would have to have a loan-to-value ratio of under 60% for a 35 % risk weight and a loan-to-value ratio of 60%-80% for a 50% risk weight. Also with the proposed regulation, past-due and nonaccrual loans and commercial real estate risk weights change from 100 % to 150%. Community banks need to be concerned about their capital levels. However, I am concerned that the proposed regulation would hinder banks from making loans to their customers in their communities. I understand the proposed regulation would not be effective until January 2015, but the loan-to-value ratios proposed are the ratios at the time of loan origination, or later, if a new appraisal was recently completed. I do not believe that community banks have the capability to change the structure of their balance sheet by 2015 in order to maintain their current capital classifications.

A Community Owned Independent Bank



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There are other aspects of the Basel III proposals concerning community banks that could be discussed as well, such as including accumulated other comprehensive income in capital and the implementation of the capital conservation buffers. I ask that the proposed rules concerning the implementation of Basel III for community banks be postponed until the effect of the regulations may be fully studied and comprehended. Thank you for your consideration in this matter.

Respectfully,

Nadine Pruessner
Executive Vice President/CFO

Cc: Honorable Roy Blunt
Honorable Claire McCaskill
Honorable Blaine Luetkemeyer