CITIZENS BANK, N.A.

October 21, 2012

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

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

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 FDIC RIN 3064-AD95, FDIC RIN 3064-AD96, and FDIC RIN 3064-AD97

Dear Ladies and Gentlemen:

I am the CEO of Citizens Bank, Fort Scott, a $265MM community bank that primarily serves rural Kansas with 8 bank branch locations. I am writing you to express my concern about proposed regulations being considered under Basel III and in response to the notices of proposed rule making.

There are elements of this plan that will have severe negative consequences on the banking system, community banks and ultimately the communities we serve. I would like to outline my issues and concerns for your consideration:

1. We are concerned about the stipulation where available for sale securities must be marked to market and any change in value captured in the income statement and

ultimately impacting capital. We have a $125MM portfolio of mostly mortgage backed securities that currently have a $6MM gain. When rates rise, this will move to a loss position and negatively impact earnings and capital even though no security was sold. This will create massive volatility in earnings and capital. Business strive to achieve stable earnings and capital structures and this legislation would force banks to shrink or eliminate available for sale portfolios which historically have proven to be an effective balance sheet tool to optimize returns and create stability of earnings and capital. Also, in a rising rate cycle the economy would typically be improving and loan demand would increase. If earnings and capital decrease in this cycle, it will be much more difficult for community banks to be able to make loans due to the capital constraints. So when businesses need and want loans the most, banks will be in the least favorable position to meet that need. Also, the mortgage market needs a readily available market to buy and sell Mortgage Backed Securities. With this legislation, banks will not be able to participate in this market. The efficient system we have today that provides a market for these assets will be replaced with overseas investors who are not constrained by these onerous regulations.

2. We are concerned about the stipulation where individual residential mortgage loans receive risk weightings for Risk Based Capital treatment based on category of loan and loan to value. We risk rate pools of loans now and apply risk weights to the pools not the individual loans. Consider if this legislation were in place in 2008. As the recession set in, Loan to Values would increase causing huge volumes of loans to be have double the capital support. At the same time, as borrower cash flow gets stressed and the banks move to restructure the loans, many would move to a category 2 asset. This would discourage banks from working with borrowers due to the more stringent capital treatment. If we did modify the loans to help the borrowers, we would have further pressure on capital. The net effect would have been many more undercapitalized banks than we had and many more failures due in large part to accounting rules. Lastly, it is unrealistic and very costly to revalue the collateral on individual mortgage loans. This would make it more costly to receive a mortgage which would hurt the consumer. Since most young families start out with higher LTV mortgage loans, they would be disproportionally penalized under this legislation with higher rates, higher costs, and fewer product offerings.

3. We are concerned about the stipulations on Home Equity Loans. The legislation would classify junior liens as category 2 loans requiring higher risk weightings. Junior liens represent an effective way for home owners to tap into equity reserves if they need it for emergency purposes or other needs. Junior lien home equity loans have historically been a very safe and effective product for banks and the consumer. This legislation would reduce the availability and increase the cost of this important product. The risk of junior liens is currently offset by loan loss reserve calculations based on historical loss rates. This practice is appropriate and has historically produced acceptable results.

4. We are concerned about risk weighting delinquent loans higher. Consider if this were in place in 2008. As customers developed problems and became delinquent, banks would have been reserving 50% more capital for those loans in addition to additional loan loss reserves (double reserving). So we would have been faced with earnings pressure due to loan losses, higher capital requirements due to the revised risk weightings which would have put many more banks in the undercapitalized category and ultimately many more banks would have been at risk of failure due to these constraints. In a recession, borrowers need time to address the problems and these rules would accelerate the foreclosure process since banks have no incentive to work with the borrowers. We would be better off foreclosing and selling the asset than keeping in on our books at the higher risk weighting and giving the borrower the needed time to solve their problems.

5. Applying risk weights to individual loans based on LTV, category and delinquency is effectively carving out protection for the loan portfolio in the form of increased capital. The loan loss reserve is designed to play this role and has worked well over the years. By having both, we are effectively double reserving for the same assets.

6. The proposal will require our bank to collect and report new and in many cases, very detailed information in order to calculate the risk weights of assets. Our systems are not capable of this today. Banks will be required to obtain, maintain and report new information about underwriting features and LTV ratios of credit exposures, and sufficient information to satisfy due diligence requirements. This does not exist today. Further, in most cases, existing loans are not grandfathered and therefore the new information will need to be collected on the bank's existing

CITIZENS BANK, N.A.

portfolio. Existing information may also need to be maintained and reported on in different ways and forms and with greater frequency. All this will add tremendous costs to an already fragile industry. Cost will increase, credit availability will decrease which will have negative effects on the consumer, small business and job creation.

What does all this mean? Higher capital will be necessary to comply with the regulations. Cost will skyrocket which will make earnings more challenging. Tools once available to manage balance sheet risk will not be an option. Earnings will be volatile making it less attractive to entrepreneurial capital. In order to comply with this legislation, a bank is going to need to be much larger to be able to manage the cost and complexity of this legislation. A small community bank will no longer be a viable business and the industry will experience massive consolidation in the coming years. The community bank will cease to exist because the return on investment and risk profile will not be sufficient to attract entrepreneurial capital.

The community bank is the cornerstone of rural America and as we see community banks fade away we will see the demise of rural main street America as well.

Thank you for your time and consideration.

Respectfully submitted,

Randy Edge
CEO
Citizens Bank, N.A..