The Citizens National Bank
of Quitman
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October 19, 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

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] 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").

I am the president of a $100 million, primarily agriculture bank, located in the south central part of Georgia (Brooks County). We are a genuine community bank that began in 1934 that truly cares deeply about our customers and employees. We are a very transparent and a simple bank that can be described as "plain vanilla". We are extremely diligent in our efforts to earn and maintain satisfactory marks in safety and soundness, compliance, and related regulatory requirements. The twenty-two (22) employees of our bank are committed to our community, its growth and well-being. Without our bank providing loans and services to our area, our community would definitely suffer. I am very much concerned about the effects Basel III will have on the bank's ability to continue its important mission to provide the community with financial services even if those services do not meet the profit margin test of the "too big to fail" banks.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

I am in support of capital requirements for banks in our country to ensure our industry can weather the economic storms that will come our way in the future. Our mutual goal is the same. However, I do have significant concerns about the proposals which have been approved by the agencies and placed out for comment. My concerns are as follows:

- **Requirement that gains and losses on available for sale Exclusion securities must flow through to regulatory capital.**

  Our bond portfolio totals approximately $12 million and is made up of primarily municipal and federal agencies all of which are classified "available for sale" for liquidity purposes. However, it is important to note that the bank has never cashed a bond for liquidity purposes and it is our intentions to hold our bond portfolio until maturity. At the present time, during a period of historically low rates, the bank reflects a positive market value in our bond portfolio of $450,000. Shock testing our portfolio indicates a 300 basis point increase in interest rates would create a $2 million or a negative 16.95% market value change and dramatically decrease our capital under Basel III. As of September 30, 2012, the bank's Tier One Leverage Capital ratio was at 10.23%. Based on the 300 basis point increase in interest rates, our Tier One Capital would drop to 9.08%. This adjustment to capital is made even though nothing changed other than the interest rate environment. As previously stated, over the course of the bank's history we have generally held our bonds to maturity.

- **Increased risk weighting for residential mortgage loans**

  Our bank provides a significant number of mortgages to people living in the markets we serve, especially agriculture related loans. We do not participate in the secondary market and hold all of our mortgage on the bank's books. These loans are generally balloon loans which allows the bank to better manage its interest rate risk. We cannot afford to take the significant interest rate risk associated with holding 25 to 30 year fixed rate mortgage loans in our portfolio. Requiring higher risk rating of balloon rate loans requires more capital, increases the cost of credit, and will serve to reduce the availability of mortgages in our area.

- **Proposal to increase risk weight on delinquent loans**

  Delinquent loans are already considered in the Allowance for Loan and Lease Loss Analysis. Our bank is located in a low income area (Brooks County Median Household of $41,309 vs. the National Median Household Income of $51,910) and is closely tied to agriculture which can be a volatile industry tied to many variables, weather and the commodities market. We work with our borrowers when times are difficult with reasonable work-out solutions. The impact of this rule will be to increase the bank's aggressiveness in moving loans that become 90 days delinquent off the balance sheet and reduce our willingness to work with a borrower to remediate issues. The proposal of increasing risk weighting on past due loans double the adverse effect for most banks by decreasing capital while at the same time holding significant amounts in the loan loss reserve to compensate for the additional risk.

My final concern is the overall complexity and the ability to understand and interpret the rules. Most of us in small banks do not have the staff or computer systems that can generate the granularity needed to report under Basel III. We will need to acquire new software and install new systems or engage a third party in order to comply with the very complex calculations. The new rules will cause the bank to incur new cost and greatly increase our regulatory burden. Why not use the current structure for community banks and allow the examiners to increase the capital requirements on a per bank basis dependent upon the bank's risk profile? Why not consider incentivizing banks to hold more in the Allowance for Loan loss by allowing 100% of the reserve in the capital calculations rather than capping the percentage at 1.25%? These suggestions would create more capital and loan loss reserves which would accomplish the goal – a safe and sound banking system prepared for the next downturn.

The Citizens National Bank of Quitman believes that the cumulative effect of each of the items discussed will have a significant impact on most community banks in this country. We strongly urge you to consider this impact and exempt the community banks from Basel III. The Citizens National Bank's goal is to continue serving our community and to strengthen our local economy in a safe and sound manner. These proposed rules could jeopardize the bank's ability to achieve this goal.

Sincerely,

Neal R. Bradley
President