From:	Citizens National Bank of Texas, J. Michael Lee
Proposal:	1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules
Subject:	Regs H & Y Regulatory Capital Proposals

Comments:

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the basil 3 proposals that were recently issued for public comment of the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Citizens National Bank of Texas has been serving Ellis County, Texas for over 143 years and has remained a partner with generations of customers. The bank has grown to $600 million in assets with 13 branches serving over $440 million indirect loans, $125 million and self originated FHLMC loans, and 29,000 personal checking customers and 4900 business customers. We have been a successful bank and have been noted as a top 20 performing bank, by the Independent Community Bankers of America 10 out of the 11 past years. We take our customers and our banking seriously.

Community banks are not what caused the current financial crisis and that alone should have exempted community banks from the Basel III proposals. Capital levels at CNB have been higher than any of the "Big Banks" and now the proposal requires our bank to increase capital levels even further. While there is little evidence of a capital crisis in the community banking industry, there is a need for increased lending in our communities. Unnecessarily increase seen CNB capital levels will result in reducing our ability to lend in our community.

The Basel III proposal impacts community banks in 4 major areas:

1. Phase-out of Trust Preferred Securities, the proposed 10 year phase-out of tier one treatment of instruments like trust preferred securities, eliminate a reliable source of capital for community banks. We believe that it was the intent of the Dodd-Frank Act to permanently grandfather tier one treatment of TRUPS issued by bank holding companies between $500 million and $15 billion. CNB would experience a 21% reduction in capital, significantly reducing our lending activity and our ability to service our customer needs, If Trust Preferred Securities are phased-out.

2. The Implementation of Capital Conservation Buffers will require Community Banks to build capital during difficult financial times. The current low interest rates are challenging community bank earnings. Community Banks do not have ready access to capital and normally increase their capital through the accumulation of returned earnings, this requires time. If Community Banks can not be exempted from Capital Conservation Buffers they will require additional time to accumulate earnings.

3. New Risk Weights, the proposed risk weight framework under Basel III is extremely complicated. It places an onerous regulatory burden on Community Banks. Many Community Banks will either exit the residential loan market or only originate loans that can be sold to the GSE. Decreasing the number of Community Banks providing residential loans will seriously jeopardize the housing recovery.

4. Mortgage Servicing Rights, the act should not penalize existing mortgage servicing assets. The proposed risk rating, of existing mortgage servicing assets, increases the capital requirements for Citizens National Bank of Texas by $1 million. Current or historic losses do not justify this buffer. It is unnecessary to take these dollars out of circulation in our community.

Sincerely,

J. Michael Lee
Citizens National Bank of Texas