10/09/2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
0008,0009
Subject Basel III Docket No. 1442

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Subject: Basel III OCC Docket ID OCC-2012-
and 0010

Robert E. Feldman
Executive Secretary
Attention: Comments/ Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington DC 20429
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

RE: Basel III Capital Proposals

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").

Citizens Bank & Trust Co. is a commercial bank that has operated in the Mississippi Delta since 1917 and has approximately $125 million in total assets. CBT Bancshares is the holding company that owns Citizens Bank & Trust Co. My comments are related to both entities.

Citizens Bank & Trust Co serves one of the most economically depressed areas in the country, with our bank serving Quitman, Tunica and Southwest Desoto Counties in Northwest Mississippi. Quitman and Tunica counties rank among the top per capita recipients of SNAP benefits in the country. Our geographic area ranks among the bottom counties in the country in several other health, economic and educational measures. The area that we serve is primarily agricultural and has experienced significant reductions in population in recent years. The median household income in Quitman County is $24,169, compared to $37,881 for Mississippi and $50,054 in the US. The number of people living below the poverty line in Quitman County is 34.8% compared to 21.2% for Mississippi and 11.8% in the US. The markets that we serve have some of the poorest people in the nation.

In many of our markets the real estate demand has never been vibrant. Residential properties sell for far less than they would in more populated metropolitan areas and sales are relatively few in numbers. The median value of owner-occupied housing units from 2006-2010 is $46,200, well below the threshold to qualify for a conventional mortgage; 83% of our banks residential mortgage loans are below $100,000 and of that amount 51% are below $50,000 therefore, in the areas that we serve it is often impossible for borrowers to obtain conventional mortgage loans. Most conventional lenders require appraisals based on comparable sales within the last three to six months and within close proximity to the subject property. Due to the limited numbers of sales in many of the areas we serve, conforming appraisals are not available and therefore conventional mortgage loans eligible for the secondary market are not possible. Our customer base also encounters problems qualifying for conventional loans due to the small size of the loans. A large majority of our residential housing loans are made below the level that is eligible for the secondary market. Citizens Bank & Trust Co along with other community banks combat this by making residential real estate loans that we keep on our books for the life of the loan. This partnership between the borrowers in our area and the bank have allowed us to provide our customers the opportunity to secure financing to purchase homes that otherwise would be unavailable to them. Due to liquidity and interest rate risk, these loans are structured with longer amortizations to make the payments affordable, but the loans balloon after three to five years. At the end of the term the loan is either renewed or if an acceptable appraisal can be obtained, refinanced into a conventional mortgage. Citizens Bank & Trust Co. has been making loans like this for many years and has never encountered problems with these types of loans. Also none of these loans have been sold into the secondary market; they are kept on our books. These have been good loans for our bank and have given much needed support to our communities.

Based on the proposed legislation, Citizens Bank & Trust Co.'s entire residential mortgage loan portfolio will be classified as category 2 loans and will be subject to the higher risk weighting requirements. This will reduce our capital ratios significantly. As we move forward, we will be forced to assess whether we can continue to provide this type of financing to our customers due to the constraints on capital that come with them. Citizens Bank & Trust Co., along with many other small community banks, may be forced out of the mortgage loan business altogether because of these regulations. My fear is that although it will affect the bank, it will not be devastating; however the change will be devastating to our communities and customers that we serve. The result could well be that the only source of affordable mortgage loans would be eliminated. I am concerned that the void in the mortgage markets in our communities would be filled by higher cost enterprises that would move in to fill the void; this would be to the detriment of the borrowers and our communities. I am concerned that these regulations will have a disproportionate impact on the unbanked people and drive them to other types of lenders.

For the same reason, the increase in risk weighting of High Volatility Commercial Real Estate exposure will stifle much of the local commercial real estate development that is vital to our communities. Members of the community come to our bank for loans that will allow them to buy the real estate to start their own restaurants, convenience stores, and other businesses. If the proposed rules are adopted we may be forced to discontinue these loans and shut out would-be business owners.

We would recommend that the increased loan risk weightings be eliminated.
The system is overly complicated, and currently our systems do not track the original loan-to-values on our loans. The regulations would appear to require that we go through virtually all of our real estate loans and develop tracking systems for the loans to determine the risk weightings that would relate to each individual loan.

If the changes in risk weightings are not eliminated, we would recommend that traditional banks be excluded from the regulations so that they can continue to serve their customers and the needs of the communities as they have for many years.

If traditional banks are not excluded, we would recommend that existing loans on the books be grandfathered so that banks do not have to go back and re-evaluate all the real estate loans in their portfolio in order to accurately report the risk-weighted assets.

Elimination of Trust Preferred Securities (TruPS) from Tier 1 Capital.
Sources of new capital are extremely limited for small traditional banks. These banks have relied on TruPS for capital in holding companies for years. The elimination of these securities over and above what is required by the Dodd-Frank Act will affect smaller banks in a much more dramatic way than the larger banks that have access to the capital markets. Reductions in capital will generally require banks to limit growth which will decrease lending. This, in turn will limit economic recovery and cripple small communities. **We recommend that the guidelines set forth in the Dodd-Frank Act Collins Amendment be adopted and all banks under $15 billion be excluded from the rules concerning the elimination of TruPS from Tier 1 Capital**

Addition of the Accumulated Other Comprehensive Income to Capital Calculations.
The addition of AOCI to the capital calculation adds unnecessary volatility to capital planning. This volatility represents only a snapshot in time and does not have any significant impact on our liquidity or risk to the Bank. **We believe that the AOCI should continue to be excluded from the capital calculations.**

Summary

To sum up my concerns, I am afraid that the increase of the amount of capital that will be required under Basel III, along with the elimination of some sources of capital such as TruPS, coupled with the increased risk weightings required under the standardized approach proposal will threaten many smaller banks. I believe that these changes will result in some of these smaller banks selling to larger banks. In my opinion, such further consolidation of the industry hurts the communities and the customers involved. Other smaller banks may be forced to discontinue, or at least curtail, some forms of lending that are very important to their customers in order to manage their institutions' capital positions. Traditional banks in smaller towns are often the lifeblood of the communities they serve. If they restrain lending to reduce their size or to grow more slowly, the economies in these communities will suffer. I do not believe either of these scenarios is good for the banks, the communities, the customers or the nation. I would encourage you to thoughtfully review these proposals in light of how it will affect small towns, rural Americans and their economies.

Again, we sincerely appreciate the opportunity to comment on these proposed rules. We hope that you will seriously consider our comments and the effect that these rules will have on traditional banks like ours and the local communities that we serve.

Cc: Senator Thad Cochran
Senator Roger Wicker
Congressman Bennie Thompson
Congressman Alan Nunlee
Congressman Greg Harper
Congressman Steven Palazzo
Mr. Wayne Abernathy, American Bankers Association
Mr. McKinley W. Deaver, Mississippi Bankers Association