



# CITIZENS BANK

P. O. BOX 197  
100 CIRCLE DRIVE  
NEW HAVEN, MO 63068

PHONE: 573-237-3051  
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## LOCATIONS:

### Gerald

P.O. BOX 46  
725 West Springfield  
Gerald, MO 63037  
Phone: 573-764-3051  
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### Pacific

2245 West Osage  
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1451 High Street  
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### Marthasville

16020 State Hwy. 47  
Suite 101  
Marthasville, MO  
63357  
Phone: 636-433-2551  
Fax: 636-433-2553

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  
20<sup>th</sup> 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 17<sup>th</sup> 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