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October 22, 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, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

RE: Proposed Regulatory Capital Rules: Regulatory Capital Implementation of Basel III, Minimum regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Actions (Docket No. R-1442, Docket ID OCC-2012-0008, RIN 1557-AD46, RIN 3064-AD95)

Proposed Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements (Docket No. R-1442, Docket ID OCC-2012-0009, RIN 1557-AD46, RIN 3064-AD96)

Ladies and Gentlemen:

First Citizens Bancorporation, Inc. ("Bancorp") is a one-bank holding company whose principal subsidiary is First Citizens Bank and Trust Company, Inc. ("First Citizens") of Columbia, South Carolina. First Citizens is a Southeastern financial services company with over $8 billion in assets dedicated to providing a complete array of commercial and retail banking services through its 175 offices in 108 communities in South Carolina and 22 offices in 18 communities in Georgia. We are guided by our heritage and committed to the long-term success of our company, our customers and the communities we serve. We appreciate the opportunity to provide comments on the proposed regulatory capital rules under the Basel III standards released by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the "Agencies").

Executive Summary-Top 5 Reasons First Citizens Objects to the Proposed Capital Rules

Our most significant objections to the proposed regulatory capital rules center on how they will adversely affect bank capital, the availability of credit, the economy and consumers. Please consider the following:

1. **There are unintended consequences of the proposed capital rules that will have an adverse effect on consumers, small businesses and bank risk management. The treatment of balloon loans is of particular concern to First Citizens.** The proposed treatment of residential mortgage balloon loans is overly restrictive. We have found that many of our customers prefer the ease and cost of closing residential mortgage balloon loans without having to qualify for agency-backed mortgage loans. These loans are designed to provide the bank rate protection in a way that makes them suitable for our loan portfolio. First Citizens has approximately $ 528.7 million in residential mortgage balloon loans on its balance sheet. Penalizing these loans with higher capital requirements penalizes worthy borrowers and introduces potentially more interest rate risk to the bank's balance sheet.

2. **Higher capital standards on loans will curtail lending in general by driving up the cost of loans to consumers and small businesses.** By placing higher capital standards on certain loans, the proposed rules will restrict the availability of loans to consumers and small businesses while not necessarily addressing the perceived weaknesses in the banking industry's capital framework. This will primarily result from banks having to increase pricing on loans to achieve an acceptable return on capital. Less availability of credit will stifle the economic recovery further. Our bank has a conservative approach to lending that shields us from many of the pitfalls that other institutions have experienced. With the implementation of the new risk based capital requirement, we believe that First Citizens' customers would be unjustly penalized.

3. **The proposed rules will have a negative impact on bank profitability and therefore ability to internally grow capital.** Given that banks will have to charge higher rates on certain loans, future loan growth will be negatively impacted at a time when loan demand is already low. This is the most significant reason that bank profitability is under so much pressure at the present time. These rules would negatively impact bank profitability further.

4. **The proposed rules make the climate for raising capital even more difficult than it is currently.** First Citizens does not agree with the Agencies' rationale for proposing the phase out of Trust Preferred Securities from Tier 1 capital for issuers with $15 billion or less in assets by the end of the year 2021. Bancorp has $110 million in outstanding Trust Preferred Securities with maturities ranging from March 2028 to June 2034.

   Trust Preferred Securities represent a tax-advantaged form of capital which reduces First Citizens' cost of capital by allowing payments to investors to be treated as tax deductible interest expense rather than a non-tax deductible dividend. Trust Preferred Securities also function as a buffer against losses and provides the board of directors and regulators with certain flexibilities such as suspending payments on Trust Preferred Securities if necessary in dealing with extreme situations.

Further, we believe that Trust Preferred Securities represent an extremely cost-effective source of capital for banks. First Citizens has been able to leverage this low-cost capital source to grow both internally and by acquisition over the last 14 years. The phase out of Trust Preferred Securities from Tier 1 capital has the effect of punishing companies like First Citizens who have successfully managed their capital and cost of capital in the most effective way.
Beyond the impact on us individually, low-cost capital equates to broader economic benefits to the public to include lower loan rates for customers, greater capital retention resulting in increased internal capital generation, more credit availability and more economic stability. We believe all these influences lead to higher levels of employment and improvement in overall economic conditions.

Finally, the climate for raising capital is much more difficult and costly; therefore, the alternatives for raising capital are limited without the option of treating Trust Preferred Securities as Tier 1 Capital.

5. **The reduction in capital ratios resulting from the proposed rules would reduce growth potential.** First Citizens has always supported the belief and need to maintain a strong capital base and to operate the bank in a safe and sound manner. An adequate capital level should include additional capital for planned business development, internal growth, normal market cycles, and to absorb potential losses. This restriction on growth is unnecessary given that management intends to operate the bank in the same conservative, long-term-focused manner that it has historically.

Pro Forma Impact on Bancorp and First Citizens Capital Ratios as of June 30, 2012

Based on our best estimates, our June 30, 2012 pro forma capital ratios would be as follows assuming that the proposed capital rules took effect on June 30, 2012:

	June 30, 2012	
	Current Capital Standards	**Proposed Basel III Capital Standards**
Bancorp:		
Tier 1 Leverage	8.50%	8.58%
Tier 1 Capital	16.35%	14.08%
Total Capital	18.69%	16.32%
Bank:		
Tier 1 Leverage	9.29%	9.14%
Tier 1 Capital	17.94%	15.05%
Total Capital	19.20%	16.30%

Proposed Regulatory Capital Rules: Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions and Prompt Corrective Action (Basel III Notice of Proposed Rulemaking ("Basel III NPR"))

While First Citizens is considered well-capitalized, the implementation of the Basel III NPR will have a negative impact on our capital ratios and structure. The increased need for capital will unnecessarily drive up the costs of capital and put a damper on already weak loan demand.

A. Proposed Rule: Minimum Capital Ratios, Capital Conservation Buffer and Prompt Corrective Action Requirements.

It is unclear why the Agencies would propose a Capital Conservative Buffer that would exceed the minimum thresholds for "well capitalized" under the Prompt Corrective Action ("PCA") framework. Basically, First Citizens would need a 2.0 percent buffer to be "well capitalized", but a 2.5 percent buffer to be "resilient" throughout different financial cycles under this new standard. Under this framework, First Citizens could be "well capitalized" and yet have restrictions on capital distributions if the requirements for the capital conservation buffer were not met.

B. Proposed Rule: Trust Preferred Securities Treatment.

As we understand it, under the Basel III NPR Trust Preferred Securities would be phased out from Tier 1 capital over a 10-year period beginning in 2013 for issuers with $15 billion or less in assets. We believe that this phase-out is aggressive and unnecessarily limits our capital alternatives in an environment where raising bank capital is already very challenging.

Bancorp has $110 million in outstanding Trust Preferred Securities with maturities ranging from March 2028 to June 2034. Currently, Trust Preferred Securities make up 13.89% of Tier 1 capital of Bancorp compared with 13.33% of Tier 1 capital for 485 banks between $500 million and $10 billion (per SNL Securities data as of 6/30/12).

We recommend that Trust Preferred Securities remain in Tier 1 capital. Its movement to Tier 2 would have a negative impact upon us and other financial institutions that may not have ready access to new Tier 1 capital.

C. Proposed Rule: Items for Inclusion/Deduction from Tier 1 Capital.

Accumulated Other Comprehensive Income- Investment Securities Portfolio

First Citizens believes that including Accumulated Other Comprehensive Income ("AOCI") as a component of Tier 1 capital has the potential to create confusion over the adequacy of recorded ratios and could lead to flawed, uneconomic, and even unsound decisions regarding First Citizens' asset-liability management and investment options in order to maintain appropriate Tier 1 capital levels.

The inclusion of AOCI in Tier 1 capital will lead to more volatile capital levels as the proposed capital recognition would largely reflect temporary declines in fair value caused by fluctuation of market interest rates rather than credit impairments. Ninety-nine percent of First Citizens' investment securities portfolio consists of instruments issued by the U.S. government, agencies or government sponsored agencies, whose market values reflects market interest rate levels rather than credit spreads.

In the current interest rate environment, it is a disincentive to hold highly liquid securities that have low credit risk. We, along with regulators, will be forced to calculate alternative ratios to determine an effective capital position exclusive of AOCI. In a market appreciation environment, capital ratios would be discounted to reflect potential volatility due to investment securities portfolio yields being higher than current market interest rates. However, market depreciation would be counted against capital requiring financial institutions to hold greater levels of common equity capital to comply with capital ratios that reflect potential temporary adjustments.

Secondly, should we seek to diversify our investment securities portfolio by holding more held-to-maturity ("HTM") securities to avoid recognition of AOCI; we would experience more operational restrictions. While we will not be required to record gains and losses as a part of Tier 1 capital, HTM investment securities significantly reduces our ability to adjust our portfolio for liquidity and funds management purposes.

This proposed requirement adds a potential capital penalty on using the investment securities portfolio as a strong source of liquidity which is one the most effective tools to reduce overall asset sensitivity. We recommend that the Agencies exclude any AOCI adjustments from the regulatory capital calculations and continue to include an addendum in the Call Report to reflect gains and losses in the available-for-sale investment portfolio.

Accumulated Other Comprehensive Income - Pension Assets/Liabilities

First Citizens is required under U.S. GAAP to recognize the overfunded or underfunded status of a defined benefit pension plan on its balance sheet as an asset or liability, with corresponding adjustments recognized in AOCI. Similar to the current treatment of investment securities portfolios, the AOCI adjustment related to the adoption and application of U.S.GAAP accounting is currently excluded from regulatory capital.

The proposed guidance intends to recognize fully in common equity Tier 1 capital defined benefit pension plan liabilities but to derecognize defined benefit pension plan assets except to the extent that a bank has "unrestricted and unfettered access" to such assets. Whether a pension plan is overfunded or underfunded depends materially on the discount rate applied to very long-duration future cash flows; therefore, the assets and liabilities that would be recognized in regulatory capital arise from temporary economic and market fluctuations that can easily reverse and frequently do.

We believe that the current exclusion from regulatory capital of such assets and liabilities is more consistent with safety and soundness than their proposed inclusion. Reinforcing our belief is the fact that in receivership the claims of the FDIC would be senior to those of the beneficiaries of underfunded defined benefit pension plans, who would have the status of unsecured general creditors of a bank sponsor.

Consistent with our recommendation for AOCI for the investment securities portfolio, inclusion of pension assets and liabilities would introduce unnecessary and counterproductive capital volatility.

Net Deferred Tax Asset

We recommend that the capital impact of the Asset and Liability mark-to-market of the investment securities portfolio not be considered for either the DTA or AOCI. The solution must work for all points in the interest rate cycle, not just points where the investment securities portfolio mark-to-market generates a temporary DTL.

Proposed Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets (Standardized Approach Notice of Proposed Rulemaking ("Standardized Approach NPR"))

D. Proposed Rule: Residential Mortgage Loans.

Based on the proposed Standardized Approach NPR, many of our residential mortgage loans would be subject to a significantly higher level of risk weightings in order to calculate a perceived level of risk within our portfolio. Our bank has a conservative approach to lending that shields us from many of the pitfalls that other institutions have experienced. With the implementation of the new risk based capital requirement, we believe that First Citizens would be unjustly penalized.

Single Factor Approach

First Citizens agrees with the Agencies that inadequate loan underwriting and high-risk mortgage products have contributed to an increase in mortgage loan defaults and home foreclosures. The Standardized Approach NPR introduces higher risk weights (between 35 percent and 200 percent) for residential mortgage loans which are subdivided into two risk categories based on underwriting criteria (traditional vs. nontraditional) and lien position. Within each category, risk-weights would then be assigned based on standard Loan-to-Value ("LTV") ratios. We are concerned under the proposed methodology that a single loan criteria (i.e. term, payment frequency, credit underwriting, maximum annual rate variance, payment status of less than 90 days past due, and senior and junior lien mortgages with combined LTV ratios below threshold levels) could trigger an unnecessary Category 2 characterization even though the overall credit profile is of high quality and worthy of a Category 1 risk weighting.

Determining whether a loan falls under Category 1 or Category 2 based on a single factor may result in unintended consequences. For example, a high LTV loan whose borrower has a very low debt-to-income ratio and/or a high net worth would be evaluated as a Category 2 loan with much higher risk weighting. Alternatively, a very low LTV loan whose borrower has a higher debt to income ratio would not be similarly disadvantaged. In addition, heavy reliance on residential real estate appraisals to determine risk weightings may not be the best approach to quantify the risks related to residential mortgage loans. We believe that a single-factor approach without regard to the overall borrower's profile will contribute to the delay in the recovery of our residential mortgage market.

The Standardized Approach NPR allows for no consideration of private mortgage insurance ("PMI") in the determination of the LTV ratio for residential mortgage exposures. This could have the effect of substantially reducing or eliminating the usage of mortgage insurance for loans retained in the on-balance-sheet portfolios of banks. We consider the risk spreading function of mortgage insurers to be of value, both for managing geographic concentration risk as well a mortgage sector exposure.

We believe that a methodology for overall credit profile should be developed that takes into account a cumulative view of the credit factors rather than rely on a single factor for determining risk weighting. This profile should also recognize high quality and properly underwritten PMI in the determination of the LTV ratio for residential mortgage exposures.

Residential Mortgage Balloon Payment

First Citizens also has concerns about what constitutes a nontraditional product under the Standardized Approach NPR such as a residential mortgage "balloon payment". First Citizens has approximately $528.7 in residential mortgage balloon payment loans and automatically applying greater risk weights to these loans would be detrimental to us. We have found that many of our customers prefer the ease and cost of closing residential mortgage balloon loans without having to qualify for agency-backed mortgage loans.

These loans are designed to provide the bank rate protection in a way that makes them suitable for our loan portfolio. Penalizing these loans with higher capital requirements penalizes worthy borrowers and introduces potentially more interest rate risk to the bank's balance sheet.

Combined LTV Ratio

First Citizens is concerned over how the combined LTV ratio for total residential mortgage exposures would be calculated where the first and second lien loans are with the same borrower. It is our understanding that we would be required to add the first and second lien (or home equity loan exposures fully drawn) in order to calculate a combined LTV. Funded home equity loans are subject to risk weighting dependent upon whether the total exposure (includes first and second liens) is held by the same financial institution and is considered a Category 1 or Category 2 loan.

If we have a customer with an 80% LTV first lien mortgage and two years after closing this loan the customer would like a home equity loan, we would not want to tell the customer that due to federally mandated regulatory capital rules, they can get their loan at any competitor for half price because as their primary bank we would need to hold more capital on the loan than a competitor bank. This aspect of the proposed rule is anti-competitive and harms consumers.

Data Management

In order to calculate the risk weighting under the Standardized Approach NPR, First Citizens would have to collect additional information from the customers and invest in process, data management, and system changes to properly identify and segregate loan categories. Although these compliance costs do not benefit our customers, ultimately, we may have to pass the additional costs on to our customers.

E. Proposed Rule: High Volatility Commercial Real Estate Loans

First Citizens does not heavily participate in High Volatility Commercial Real Estate ("HVCRE") loans which are subject to a 150% risk weighting based on the Standardized Approach NPR. However, we believe that these loans have been adequately accounted for in the Allowance for Loan and Lease Losses ("ALLL") calculation to compensate for any losses inherent in the balance sheet. By risk weighting the HVCRE loans at 150%, it appears that we are being double charged, therefore decreasing capital again and ultimately limiting the amount of funds available for new loans.

F. Proposed Rule: Past Due Exposures

The Standardized Approach NPR assigns a 150% risk weighting to any exposure that is not guaranteed or not secured (excludes residential mortgage exposure) if it is 90 days or more past due or on nonaccrual. If applied to a commercial loan secured by real estate, the loans would appear to require

100% risk weight when the loan is not past due, 150% when it is 90 days or more past due or not accruing, and then 100% after the loan is foreclosed and the assets are held in OREO.

During periods of economic stress, it is expected to have normal cyclical increases in past dues and nonaccrual loans. To account for the potential loss exposure of these problem loans, First Citizens will make periodic adjustments to its ALLL calculations to properly reflect the risk of loss inherent the loan portfolio at the balance sheet date. There should be no need to create an additional capital charge to reflect temporary and expected fluctuations in the economic cycles.

Since loan loss exposures are reflected in the ALLL, which is limited as a Tier 2 capital component to 1.25% of risk weighted assets, we recommend that the risk related to problem loans be managed through the loan loss reserve guidance and not by adding an additional capital requirement.

Conclusion

First Citizens has always supported the belief and need to maintain a strong capital base and to operate the bank in a safe and sound manner. An adequate capital level should include additional capital for planned business development, internal growth, normal market cycles, and to absorb stress. However, Basel III does not promote and facilitate housing and small business growth that is vital to improving the national economy. We believe this proposal could have adverse unintended consequences and stifle the already fragile economic recovery.

We favor a simpler approach that is more institution specific than a one-size fits all approach. While the Basel III proposal addresses the higher risk institutions, it penalizes the low risk institutions and forces them to become more risky to get the required return on capital.

First Citizens appreciates the time that the Agencies take to review the comments. If you have any questions or would like additional information, please do not hesitate to contact me at 803-931-1659.

Sincerely,

Craig L. Nix
Chief Financial Officer

cc: Jim B. Apple, Chairman
Peter M. Bristow, Chief Operating Officer
Jay Weir, Chief Risk Officer