CITIZENS NATIONAL BANK

October 22, 2012

Submitted via www.regulations.gov

Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Ladies and Gentlemen,

Thank you for the opportunity to comment on the proposed Regulatory Capital Rules. Many letters have been submitted for your review from bankers' associations, brokerage firms, and other interested parties covering most of the items in the proposal.

Citizens National Bank has been serving Henderson, Texas and our surrounding communities for over 82 years. We are honored to be a community bank. The focus of my letter will be a few of the items that will significantly affect our bank.

1. The proposal seeks to recognize (include) in common equity tier 1 capital unrealized gains and losses on all available-for-sale (AFS) securities, both debt and equity, pursuant to a phased transition period from calendar years 2013 to 2018.

The graph in Figure 1 represents our bank's holding in the investment portfolio during the period 2005 through September 30, 1012. The average life of our portfolio is managed to stay between 3-5 years. The size of the portfolio grew because of deposit growth from the flight of depositors' funds to the bank from alternative investments and decreased loan demand as customers deleveraged.

The complexion and mix of the portfolio remained stable during this same period. We own Treasury notes, Municipal bonds (predominantly General Obligations, many of them Texas Permanent School Fund guaranteed), Agency (GNMA, FNMA, FHLMC, FHLB) issued bonds in the form of bullets, conservative callable bonds, Mortgage Backed Securities, and Collateralized Mortgage Obligations. Our portfolio is managed for liquidity, Asset/Liability interest rate risk, pledging, and yield; ***not*** credit risk.

Please note that we fully utilize our Available for Sale classification and no longer use the Held to Maturity classification. We elected to move all of our securities from HTM to AFS to allow us more flexibility to manage our portfolio.

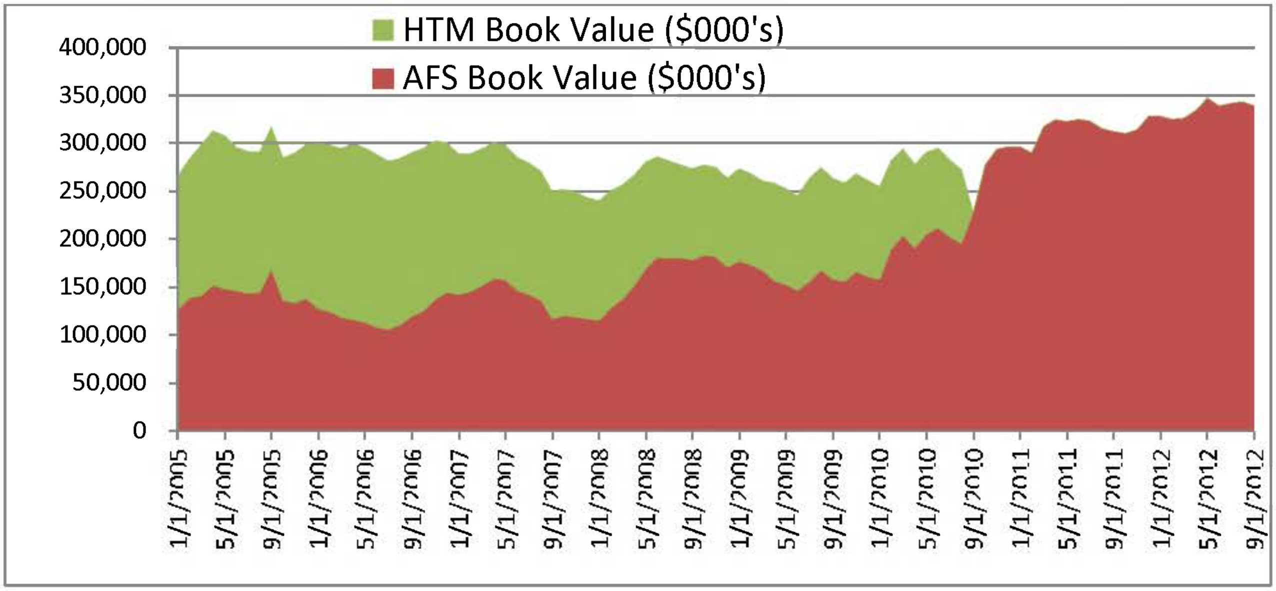

Figure 1

Looking back even farther, Figure 2 shows the period 2001 to September 2012. The Available for Sale Mark to Market Adjustment fluctuated from an unrealized loss of -$3.091M to an unrealized gain of $14.000M.

The mix of bond types and maturities remained the virtually the same and yet market interest rate changes, prepayments, and market volatility caused by the flight to quality and multiple rounds of quantitative easing continue to cause the swings in market value.

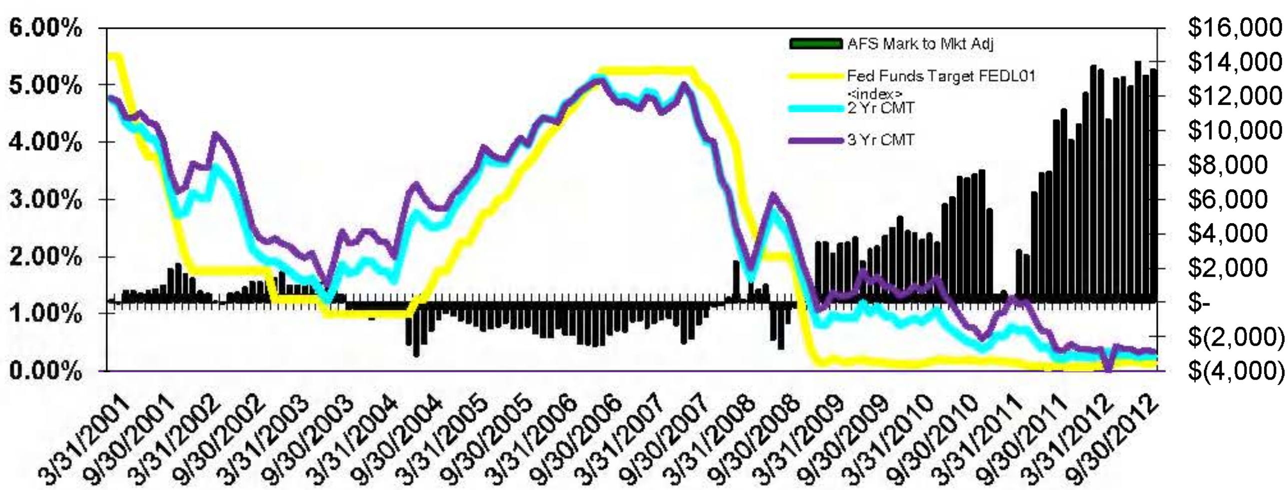

Figure 2

We have had no "Other than Temporary Impairment" (OTTI) where a bond was actually written down in value through the income statement, nor any other loss of principal.

The calculated market value represents the present value of the future cash flows of a bond. A bond that is yielding higher than market rates has a higher market valuation. The higher yield allows for a better net interest margin and strong earnings which ultimately flow to capital. Lower yields strain margins and earnings but the par value of principal is not at risk.

The proposal would severely reduce our appetite for price risk and limit our ability to manage our earnings and interest rate risk by owning longer securities for yield and shorter (or amortizing) securities for liquidity. The blend of securities we typically own are subject to swings in valuations due to market volatility. Credit concerns, other than the current conservatorship of Freddie Mac and Fannie Mae, are minimal. However, under the new proposal, we would minimize our exposure to price volatility and thus minimize the opportunity for adequate yield to support our interest margins.

In addition, many banks would classify their securities as Held to Maturity to avoid recognizing the unrealized gains and losses through regulatory capital and would limit their liquidity options.

2. The proposal requires loans to be classified by Loan to Value (LTV) or other structural criteria into buckets used to calculate risk weighted assets.

Loan to value ratios are calculated at origination and at other times throughout the life of a loan if there are other triggering events that require a new appraisal. The use of these ratios and structures to classify loans into risk buckets is of limited usefulness. How is a static measure useful when determining periodic capital requirements?

- The LTV at origination ignores the principal paid on a performing loan as no current appraisal is available.
- Banks use balloons to manage interest rate risk, yet they are automatically Category 2. Strong underwriting (which we can prove by our loss history before, during, and after the housing crisis) and good credit scores make for a profitable and fairly priced loan.
- Proposal also affects customers. Borrowers use balloons to get a 30 year amortization schedule and lower payments. Many borrows prefer balloons when they plan to move due to relocation, needs for family, such as a larger home or downsizing.
- Loan systems may not contain the information needed to calculate LTV and banks may be forced to review origination documents.

Finally, I recently read a troubling commentary in The Banc Investment Daily (a targeted newsletter specifically created for community banks.) Their October 19, 2012 newsletter included the following "**Major Competition**: Large private equity firms are raising billions of dollars as they gear up to lend directly to mid-sized businesses in the U.S. The firms see an opportunity to step in between banks and businesses, given added regulation that falls on banks through Basel III and does not apply to them. Companies with EBITDA as low as $5mm will be targeted."

Unless lenders other than banks are regulated in a similar fashion there will continue to be the threat of garbage loans making their way into securities sold to investors (risking another toxic loan crisis.) In addition, excessive regulation of banks increases the rates they must charge on loans, reserves for loan loss, and the capital that they must hold depending on the "risk" of said loans. Over time, banks will be filled with loans with rates limited by regulation, loans for borrowers directed by regulation, loans that are structured to minimize capital holdings, and loans with lower yields as banks compete on price but cannot charge for credit risk.

Banks are in a straitjacket. Fees are disappearing due to Dodd-Frank and other regulations. Overdraft protection for customers who spend more than they have in their accounts is supposed to be free. Transaction fees on electronic transactions are diminished and yet customers are heavy users of our infrastructure. We must pay to keep that infrastructure up to date with the latest technologies but no one regulates the amounts charged by those vendors.

Banks are the police, forced to monitor and report on cash transactions and suspicious activities, check OFAC for foreign or other restricted customers, stop or prevent fraud by monitoring customer accounts, and pay for fraud when customers fail to monitor their own account activity.

I have been in banking for 25 years and believe that the future of community banking is threatened by the very regulations created to protect the financial system.

Thank you for your kind consideration.

Sincerely,

Marj Wagner