CITIZENS BANK
OF LAURENS COUNTY
A Division Of The Citizens Bank Of Swainsboro

R. Jeffery Cannon
President

October 4, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th St. and Constitution Ave. N.W.
Washington, DC 20551

Office of the Comptroller of the Currency
20 E Street, SW
Mail Stop 2-3
Washington, DC 20219

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

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity provided to us to 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. The rules as they have been proposed will impede the lending ability of community banks as well as hinder our ability to raise capital in the future, when necessary.

The Citizens Bank of Swainsboro/Laurens County is a community bank with approximately $140,000,000.00 in assets serving rural East Central Georgia with locations in Swainsboro and Dublin, Georgia. We have been remained profitable and have avoided any regulatory orders during the economic downturn that has occurred in recent years. This is due to a conservative management team and Board of Directors. We have maintained capital well above the levels considered to be "well capitalized" by regulatory capital standards.

As of June 30, 2012, our Tier One Risk Based Capital ratio was 13.69%, Total Risk Based Capital was 14.96%, and Tier One Leverage Capital ratio was 9.28%. The Basel III capital standards as proposed would reduce our Tier One Risk Based Capital Ratio to 9.25%, Total Risk Based Capital to 10.51%, and Tier One Leverage Ratio to 8.93%.

With the new Basel III Capital requirements our Total Risk Based Capital Ratio will go from having a strong capital cushion (14.96%) to barely meeting the CCB minimum (10.51%).

One to Four Family Residential Loans represent approximately 33% of our loan portfolio and have always been one of our strongest products, performing well even during the recent economic downturn and real estate recession. We have used balloon note financing for years as a tool to prudently manage interest rate risks, not as a way to call notes due so that we can foreclose on our customer's home. During the recent mortgage loan debacle, "balloon mortgages" became an unfairly tarnished product in the eyes of regulators and politicians. The majority of the 1-4 Family Residential loans in our portfolio are made to low-to-moderate income underserved customers that have difficulty qualifying for long term fixed rate secondary market eligible mortgage loans for various reasons. The Basel III rules will severely penalize well managed community banks for making these loans by increasing the risk weighting from 50% to a minimum of 100%. The proposed rules will discourage community banks from making 1-4 Family Residential loans at a time when the residential real estate sector can least afford it.

Basel III also provides incentive for community banks to increase their interest rate risks by encouraging 1-4 Family loans on fixed rate terms for a long period of time in a low rate environment. The Savings & Loan Industry is now extinct because of this type of lending. The rule also provides incentives for community banks to increase interest rate and liquidity risks by encouraging the placement of securities into "Held to Maturity" instead of "Available for Sale" due to the inclusion of unrealized gains/losses for Available for Sale securities in regulatory capital. The Interest rate risks are a real threat to community banks, and regulators do not need to encourage capital challenged community banks to take increased risks by discouraging balloon note financing, and encouraging Held to Maturity securities.

The majority of community bank failures were related to heavy concentrations in construction and development segment lending. Setting regulatory concentration limits for various segments of lending, and requiring higher levels of capital for banks that exceed them seem to be more appropriate and easier to monitor for community banks. Regulatory limits on segment lending will require banks to seek diversity in their loan portfolio, and diversification is the key to safety and soundness in every portfolio, whether securities or loans.

In addition, given the near absence of an active primary and/or secondary market for community bank capital, institutions with a capital deficiency will likely have their only solution being: (a) shrink the balance sheet, (b) move into assets with lower risk weights, (c) classify more investments as Held to Maturity, (d) all of the above. The preceding moves would obviously have a chilling impact on credit creation and the resulting negative economic impact could be significant.

To be useful, a capital rule must be simple, understandable and enforceable. It should reflect a bank's ability to absorb losses in good times and in crisis. It should be one that the public and shareholders can understand, that directors can monitor, that management cannot easily game, and that bank supervisors can enforce. Basel III does not accomplish this for community banks. Community banks are expecting higher regulatory levels of capital in the future and many have built their Tier One Leverage Ratios to unprecedented levels. However we don't need capital rules that will only increase our operational complexity and divert management's limited time and resources from banking activities while doing little to add insight or transparency regarding the bank's health to depositors, investors, or regulators.

Sincerely,

R. Jeffery Cannon
President