From: Charlie Williams [mailto:cwilliams@citizensbanktrust.com]
Sent: Wednesday, September 26, 2012 1:04 PM
To: Comments
Subject: Basel III FDIC RIN 3064-AD95, RIN 3064 AD96, and RIN 3064-D97

To Whom It May Concern:

Thank you for taking a few minutes to review my thoughts on the proposal to adopt the BASEL III capital standards into the Community Banking model. There has probably never been a time in which the banking sector - and particularly the community banking sector - has been more focused on capital, components of capital, and capital ratios. While I realize “reform” is perceived as a critical issue, the community banking sector is already addressing responses to certain portions of Dodd-Frank, while at the same time attempting to understand the reach and scope of the evolving CFPB. I am somewhat troubled that Phase III of an *international* standard is being contemplated, when no other country in the world has a community banking model remotely close to that of the United States. I’d like to think this model is part of what makes the economic engine that is the United States as viable as it is. The entire BASEL III issue appears to at least warrant discussion of some further definition of certain applications. The large, strategic, or systematically important institutions (take your pick of buzzwords) at which this should be aimed are markedly different, and clearly do not include the community banking sector. As much as we’d like to think we’re important and critical, we’ve never thought ourselves to be “systematically” important.

To further clarify, Dodd-Frank is not yet even complete (from my understanding not yet fully written), much less implemented. The compliance burden is a recognizable consequence, and I suspect all community banks have a desire to be fully compliant. But please understand, the job of being compliant is consuming efforts at being “banks”, at a time when the small business customer needs banking products and services. Community banks are focused now on the overwhelming number of changes currently in the works that can, have, or will affect basic operations, our management of the balance sheet, capital, and earnings – not to mention consumer rules and reporting. While very important and critical, they tend to disfavor many bank customers in their time of need.

Please note the following examples:

- BASEL III includes increased risk weightings for many mortgage loans, particularly those with balloon features, negative amortizations and other non-traditional features, and those with loan-to-value ratios in excess of 80%.

In some respects this feels as though the entire issue of mortgage reform is now included into an entirely separate Act. Beyond this, balloon features are an important mechanism for the management of interest rate risk, and re-weighting balloon mortgages will ultimately have the impact of fewer loans of this type being generated. I can fully acknowledge (and agree with) the need to address LTV issues, however, most community banks have no “program” that would include or drive any real opportunity for negative amortization. These “non-traditional” loans are simply not what we do. We have typically let those programs reside in the large, systematically important institutions. In fact, the impact of BASEL III would be to further

marginalize borrowers that do not exhibit all qualifying factors necessary for the secondary mortgage market. Community banks provide this important additional outlet.

- BASEL III is proposed to include unrealized gains and losses existing in an investment portfolio in Tier 1 Capital.

Obviously, the inclusion of gains or losses would impact the numerator of any capital ratio, while the potential changes in risk weightings noted above impact the denominator. To say these could generate fairly dramatic changes is by no means an understatement. Many banks in the current environment have become asset sensitive, and are poised to perform very well (aiding in healing the industry as a whole) in an improved economy. My bank, for example, reflects a reasonably significant unrealized gain at the current time … a gain that would be negated in a rising rate/improved economy, in a time of improving loan demand and a need for lending. Why can there not be a discussion of including unrealized gains and losses when Tier 1 leverage falls below some pre-determined level? As of June 30, 2012, Tier 1 leverage at Citizens Bank & Trust stood at 10.21%, a level that is clearly satisfactory. Would it be improved with the inclusion of Unrealized Gains? Absolutely, but to what end? We could choose to take a short term view -- sell securities and take all profits now. This would certainly further improve earnings <u>this year</u> and also eliminate the risk of future gains and losses to our Bank. But, I would think it doubtful that this action/reaction would ever be deemed to reflect what is best for the long term interest of our Bank … certainly not from an earnings and balance sheet management perspective.

The alternative is actually a more salient point. As of June 30, 2012, a rate shock analysis was performed on our investment portfolio using an "Up 400 bp" assumption. The result of that analysis indicated the value of our securities portfolio would <u>decline by $11,079,000.00</u>. This decline would have the direct effect of reducing Tier 1 leverage from 10.05% to 6.30%. ***Conversely, the same rate shock also reflected that the most profitable period in the history of our bank would occur at the same time***. What would we do in that circumstance? I suspect the Bank would be required to use all earnings to support our lack of capital, as opposed to actually contributing to our communities in the form of new loans and banking services at a time when economic activity was obviously improving, or perhaps even vibrant.

- BASEL III proposes a phase-out of Trust Preferred Shares as Tier 1 Capital, despite the fact this has already been addressed and "grandfathered" by (the as yet incomplete and not fully implemented) Dodd-Frank legislation.

The compliance effort underway for existing legislation is already significant, but we now appear to have competing legislation in an already complex legislative landscape. Honestly, capital limitations do not assist lending efforts. In the face of regular commentary on the subject of lending, or more directly the lack of any lending, this is certainly not being suggested as a mechanism to promote lending … is it? Further, community banks already have limited access to capital. Why exacerbate this existing limitation? Absent alternative capital sources the service provided and role played by community banks in small town America becomes more and more of a challenge. I'd like to think the goal of Regulators, and the goal of BASEL III is not

to have each small market served by a host of theoretically undercapitalized institutions serving communities that the larger, systematically important banks, view as insufficient in size to return monies to their shareholders.

In summary, I'd like to restate an initial comment. The United States has by any measure the largest and most efficient community banking structure in the world, unmatched by any other country. To fall prey to an international standard that does not contemplate or understand the value of community banking is only a precursor to giving the systematically important banks an increased capacity to drive banking – for better or worse. The business models are not the same, the communities we serve are not always the same, and the consumer has supported the need for community banking for many, many years. The banking system in the United States is different, and it is better. I would like to think the focus would be on how we actually *remain* "better" for the long haul.

Sincerely,

Charles A. Williams
Executive Vice President
Citizens Bank & Trust
404 Gunter Avenue
Guntersville, AL 35976