



CITIZENS STATE BANK

September 24, 2012

Robert Feldman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Negative Effects on Community Banks

Citizens State Bank of Buffalo (CSB) would like to express its concern with the proposed Basel III requirements and requests that community banks continue to operate under Basel I capital requirements.

Basel III was originally conceived to apply only to the largest, systemically important and internationally active banks. Requiring community banks to adhere to the "To Big to Fail" bank standards would decrease a small banks lending capacity which will result in unintended consequences to the communities they serve.

The proposed increase in risk weights for residential mortgages would reduce a community banks concentration in this type of credit. It will force community banks to compute complex risk weights and limit their loan offerings to meet the requirements of arbitrarily risk-weighted buckets. This restrictive mortgage rule will negatively impact CSB and all community banks.

Furthermore, including accumulated other comprehensive income (AOCI) as regulatory capital will drastically change the capital structure for community banks. The proposal to recognize unrealized gains and losses to available for sale (AFS) securities would only add considerable volatility to the required capital ratios. This will result in community banks basing their capital planning on unrealistic ratios that are inconsistent with the institutions actual financial strength. These unrealized gains and losses result only from fluctuations in the interest rates rather than actual changes in the credit risk. So, requiring a community bank to base capital planning on ratios that will typically result in no effect to the financial institution would be detrimental to the financial organization and its community. The results due to interest fluctuations will force community banks to keep more credit in highly liquid assets, thus taking credit away from local individuals. In addition, it will inevitably discourage local community banks from investing in any long term community municipalities because of the inherent inaccuracy of the capital ratios.

Basel III will be a regulatory burden that may ultimately prove beneficial to the "To Big to Fail" banks by ending the community bank industry. The costs to community banks to implement such comprehensive regulatory policies and the decrease in income, resulting from heightened capital requirements, would leave "To Big to Fail" banks with a substantial competitive advantage over community banks.

Applying such stringent regulations on community banks in a time of economic uncertainty would prove devastating to many local communities. That is why CSB is requesting an exemption from Basel III and asks to continue to follow the Basel I requirements.

Sincerely,

Richard Mays
Chief Financial Officer
Senior Vice President

P.O. Box 278
P.O. Box 55
P.O. Box 709

1330 West Commerce Street
400 East St. Mary's
722 Main Street

Buffalo, Texas 75831
Centerville, Texas 75833
Teague, Texas 75860

Ph 903-322-4256
Ph 903-536-5601
Ph 254-739-0500

Fax 903-322-3384
Fax 903-536-5302
Fax 254-739-0504