CITIZENS
ALLIANCE BANK
Customer Driven. Community Focused.

October 19, 2012

FDIC
Via email: comments@FDIC.gov

Re: **Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97**

To Whom It May Concern:

I have recently been using the new capital calculation tool provided by the FDIC to calculate our capital requirement with BASEL III. It is interesting to see that in today's environment, our bank is actually stronger under BASEL III than we are under the current system. However, with the incorporation of AOCI, I can see our capital position shifting quickly with an increase in interest rates that would decrease the value of the securities portfolio.

The bank has been building its investment securities portfolio over the past two years to provide yield due to the low loan demand and to also have enough available collateral to pledge to the various state and municipal deposits that require collateral above the $250,000 FDIC limits. This building of the securities portfolio for collateral pledging is becoming more pressing as TAG is expiring on 12-31-2012 and the need for additional collateral becomes greater. Our bank has not taken into account the new capital requirements BASEL III will require for incorporating AOCI in capital calculations in an increasing interest rate environment. In the current economic environment we are realizing a gain in our portfolio, but this gain could shift to a loss as interest rates rise. This will negatively impact our capital position.

Also, while using the new calculation tool, I noticed that a major change is the determination of 1-4 family residential loans being divided into 2 categories. As a community bank, we write almost all of our residential loans with a balloon payment to help mitigate interest rate risk. The balloon payment automatically puts the loan into the category 2 definition which requires higher capital. This requirement will put our bank into an awkward position. Do we write the loan with no balloon payment to take on additional interest rate risk to make sure we meet the BASEL III capital standards? Maybe we will need to deny these customers access to this type of loan due to the negative impact these loans will have on our capital over time. It would be a shame for us and other community banks to have to remove a loan product that our customers rely on to finance their homes which do not meet traditional secondary market underwriting.

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The 150% risk weight for development loans will slow the housing recovery significantly. Banks like mine will not be very interested in providing financing for growth in the housing industry if the penalties are so strict. The penalty is too much and too late. The market has already made the adjustments in values.

BASEL III will have many negative consequences to our bank and its customers because of the manipulation of the capital requirements. BASEL III is going to incorporate 3 additional capital components. They are the Capital Conservation Buffer, Common Equity Ratio and Total Capital Ratio. This will add complexity to the understanding of the bank financials with our directors and other interested parties. Regulators already have the ability to restrict dividend payments or require additional capital through the use of Board Resolutions, MOUs and Cease and Desist Orders. Community Banks, including mine, have spent years and in fact generations setting up balance sheets to support regulation for capital requirements. Knee jerk reactions from our regulators such as BASEL III cannot be made overnight and the changes will most likely require knee jerk reactions from community bankers. These reactions will not benefit the FDIC, the bank and especially the most important party the public.

Sincerely,

John T. Forstrom
Director