THE CITIZENS BANK
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October 19, 2012

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

Office of the Comptroller of the Currency
250 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 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. I understand the objective of the regulatory authorities to strengthen the banking industry but am concerned of the effects that the proposed changes will have on community banks.

The Citizens Bank was organized in 1943 and is located in Olanta, South Carolina. We are a $381 million community bank that cares very deeply about the customers that we serve in the communities in which we operate. We have 14 branches most of which are located in the Pee Dee region of our state and have 130 employees. We strive to comply with all laws and regulations, operate in a safe and sound manner and provide the products and services that our customers deserve and need. We have many locations in rural communities that consist of small businesses and small farms. We have weathered the financial storm of the past few years by operating in a conservative manner and we certainly were not involved nor should we be held responsible for the blunders and missteps of Wall Street that led to the financial melt-down. I am concerned that the Basel III requirements will overburden small institutions such as my bank and some of the changes proposed to capital calculations will restrict us from providing the economic growth in the communities that we serve. My comments concerning the proposals are listed below.

Accumulated Other Comprehensive Income

I am concerned about the Accumulated Other Comprehensive Income (AOIC) component of the Capital Requirements NPR where gains or losses on a banking organization's Available for Sale securities will flow through to common equity Tier 1. We presently have a portfolio that consists primarily of U. S. Government Agency Securities. These are all very conservative investments as far as credit quality is concerned; however, we have had to extend maturities to get an acceptable rate of return in this low rate environment. If rates were to rise, our capital would be adversely affected. This would negatively impact our ability to contribute to the economic recovery of our communities. The AOIC treatment could cause our bank to consider changing our portfolio from AFS to Held to Maturity status. Of course, this would limit our flexibility to manage market and liquidity risk. It may also cause us to consider investing in riskier assets that don't require market adjustments. I would request the Agencies to maintain the current practice of excluding these amounts from the calculation of Tier 1 equity.

Risk-Weighting of Residential Mortgage Exposure

The risk weight changes proposed for residential mortgages (between 35% and 200%) depend on the category to which a loan belongs and the loan's original loan to value ratio. The criteria prescribed to determine which risk rating should apply to the residential loan portfolio will create a tremendous amount of research and expense to manually go through our loan files to apply a risk-weighting. Some of the risk rating changes may force us to reduce our residential real estate portfolio thus not serving the needs of our communities in terms of providing their housing needs and requirements. I would suggest that if the Agencies are concerned about the risk exposure to capital concerning residential mortgage loans; assign a higher risk rating that is reasonable to the perceived exposure to the residential portfolio. I personally feel that the present risk-weighting applied to residential real estate portfolio in my bank is more than adequate as we have had very little loss over the years in this loan category. (See Attachment)

Deferred Tax Assets (DTA)

Current regulatory rules allow the inclusion in Tier 1 capital of DTA expected to be realized in the ensuing 12 months. DTA are subject to strict accounting treatment under GAAP. It appears that the proposal would reduce our bank's capital unnecessarily since the presence of the DTA indicate that our bank has performed an assessment and this assessment has been validated by our annual audit confirming that DTA are more likely than not to ultimately be realized.

Risk-Weighting of High Volatility Commercial Real Estate Loans

I am concerned that the increased risk-weighting to be applied to High Volatility Commercial Real Estate loans as outlined in the Proposals will result in an overall reduction in affordable lending for property developers thus slowing an already anemic economy. I realize the risk associated with this type lending; however, it appears that 100% risk weighting should be sufficient.

Summary

I certainly understand the Agencies objective for strengthening the banking industry; but as I mentioned earlier, the risks that were taken by Wall Street need to be addressed but not at the expense of all banks that have strived to operate in a safe and sound manner. I understand the need to strengthen capital in these economic times that we are experiencing but can't we accomplish this task without penalizing the community banks by onerous proposals that will be expensive to implement? I am concerned that even though we exceed the current regulatory capital levels today, the adverse changes to residential mortgage risk weights, new requirements to common equity capital and new capital conservation buffers, as well as the inclusion of AOIC in regulatory capital, could cause us to fail to meet regulatory minimums in the future. My concern for my bank, as well as other community banks, is that we do not have access to the capital markets. Our source of capital has come from retained earnings, which will not be easily generated in these economic times as regulatory expenses and burdens rise.

Thank you for the opportunity to comment on these proposals.

Sincerely,

H. Blake Gibbons, Jr.

President

The Citizens Bank
Call Report Code 1c2a ONLY

| Call Report Year | RC-C Part 1 Loan Balances | RI-B Part I Charged Off | Charge Offs as Percentage of Loans |
|---|---|---|---|
| 12/31/2011 | 76,010 | 154 | 0.20% |
| 12/31/2010 | 63,480 | 188 | 0.30% |
| 12/31/2009 | 58,957 | 110 | 0.19% |
| 12/31/2008 | 55,434 | 4 | 0.01% |
| 12/31/2007 | 50,102 | 49 | 0.10% |
| 12/31/2006 | 45,545 | 61 | 0.13% |
| 12/31/2005 | 44,113 | 2 | 0.00% |
| 12/31/2004 | 42,223 | 106 | 0.25% |
| 12/31/2003 | 34,545 | 0 | 0.00% |
| 12/31/2002 | 32,018 | 0 | 0.00% |
| 12/31/2001 | 24,007 | 1 | 0.00% |
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