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October 18, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 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, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. I am the Executive Vice President and Chief Financial Officer at First Citizens National Bank in Mason City, Iowa. We are a $1.0 billion community bank with eight (8) branches servicing eight (8) communities in North Central Iowa. While we currently maintain a strong capital position and trust that our balance sheet structure with provide for the same into the future I am concerned that the proposed changes within Basel III could cause undue hardship on community banks like us.

Specifically, I am concerned with the following:

1) **Incorporating Accumulated Other Comprehensive Income (AOCI) as Part of Regulatory Capital**

As I am certain you are aware, we are in an unprecedentedly low interest rate environment which is causing all financial institutions, large and small, to continually invest excess cash into this market. Currently the fair market value of these investment made over the past few years is positive but given the current rates there is very little, if any, room for rates to decline and they most certainly will go up at some time in the future.

Even though we are doing our best to manage our interest rate risk in this environment and continue to keep your portfolio short, no matter what we do our AOCI will turn negative in the future when rates increase. Having AOCI as part of the regulatory capital calculations will negatively impact our common equity, tier 1, and total capital as the unrealized losses will reduce capital balances. At my bank, for instance, if

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

interest rates increased by 300 basis points, my bank's bond portfolio would show a paper loss of $30 million. This would mean that my bank's tier one ratio would drop by 3%.

Large financial institutions have the staffing and expertise that provides them with the ability to more easily mitigate the risks of capital volatility by entering into qualifying hedge accounting relationships for financial accounting purposes with the use of interest rate derivatives like interest rate swap, option, and futures contracts. At my Bank, as is the case with most community banks, we do not have the knowledge or expertise to engage in these transactions to help manage the associated risks. I strongly believe that community banks should continue to exclude AOCI from capital measures as they are currently required to do today

2) New Risk Weighting

I strongly believe that changing the risk weighting to the framework set out in Basel III will cause community banks, like First Citizens National Bank, to eliminate balloon loans that are currently offered to customers that currently do not qualify for 15 – 30 year conventional financing through FHLMC or FNMA. The elimination of loan programs, like balloon loans, will negatively impact the customers or cause the community banks to take on increased risk by placing longer term loans on their books. In addition, these regulations will require community banks to incur additional costs to purchase software that will track loan-to-value ratios in order to property risk mortgages going forward. I believe the First Citizens National Bank and our customer base would be better served by maintaining the current Basel I framework.

3) Mortgage Servicing Rights

My Bank currently has a mortgage portfolio totaling $175 million that we service for FHLMC. This portfolio has been built up over the past 10 years and penalizing the existing mortgage servicing assets under the proposal is unreasonable. I feel that the mortgage servicing rights existing on our balance sheets should be allowed to continue to follow the current risk weight and deduction methodologies.

4) Imposing Distribution Limitations

First Citizens National Bank is an S-Corporation and imposing distribution prohibitions on a Subchapter S corporate structure conflicts with the requirement that shareholders pay income taxes on earned income. Banks, like ours, with a Subchapter S capital structure should to be allowed to make distributions to ensure that our shareholders have the funds to adhere to the provisions of the Internal Revenue Code associated with the income passed through to them. To accommodate this I would recommend that the capital conservation buffers be suspended during those periods where the bank generates taxable income that is passed through to the shareholders.

I appreciate the amount of work that you and your staffs have had to undertake to address this issue and I certainly appreciate your consideration of the points made above. I also ask that you give consideration to the fact that community banks, like First Citizens National Bank, are not at all managed like nor do our balance sheets carry the level of risk as do the large national and multi-national banks that Basel III was written for and, therefore, we should not be required to adhere to the same regulatory constraints.

Sincerely,

Jeffrey P. Gribben
EVP/CFO
First Citizens National Bank