The Citizens Bank℠

October 17, 2012

The Honorable Ben Bernanke
Chairman
The Federal Reserve System
20th Street and Constitution Avenue, N. W.
Washington, DC 20429

The Honorable Tom Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, S. W.
Washington, DC 20219

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, N. W.
Washington, DC 20429

Dear Chairman Bernanke, Comptroller Curry and Acting Chairman Gruenberg:

We are writing to express our concerns with the Basel III standards that were recently proposed for our nation's financial institutions. We would like to encourage you to investigate the impact that these standards will have on the banking industry, not only in the obvious changes to the capital structure of a financial institution but also the unintended impact that is sure to occur.

We understand that a strong capital structure is necessary for our nation's banking systems to be able to weather the severity of the banking crisis such as the one in 2008. While we can understand the need for more stringent capital standards for those large banks deemed too big to fail, those same capital standards tend to stifle asset and especially loan growth for community banks. Community banks represent only 10% of the industry assets but make almost 40% of all small business loans. With the additional capital level being proposed, small community banks would be faced with having to raise additional capital to fund loan growth in a market that does not favor small banks seeking additional capital. Any changes to the current capital standards should reflect the differences between the larger banks and community banks. While these standards may be appropriate for European banks, we do not believe that they are appropriate for our banking system in the United States.

We have several major concerns with the proposed standards, either one of which could potentially cause great harm to our capital structure and cause us to have to seek additional capital that is not needed under the current standards. The change that we fear will have the most impact is the proposed standards that are related to the mortgage credit sector.

The proposed standards as currently written will have a chilling effect on our ability to provide affordable mortgage lending in our communities. These loans are very important not only to the person buying a new home for their family but also for the economy of our service area. A reduction in available credit will have a ripple effect in the housing construction industry and all of the business lines

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that support a healthy and growing housing market. This part of the standard could lead banks in our area to substantially curtail, if not end, the availability of mortgage financing to the people that we serve.

We currently have approximately $105 million in 1-4 family residential mortgages in our loan portfolio. In order to manage our interest rate risk, most of these loans were made with a 5 year term, a 15 year amortization period and a balloon payment at the end of that period. Under the current guidelines, we are required to provide risk based capital based on 50% of the value of these loans. Under the proposed Basel III capital standards, this percentage would increase to a range of 150 to 200% for risk based capital purposes. Since we do not operate in a vacuum, we would be faced with decisions as to whether we want to make any additional residential loans, adjust the rates upward to compensate for increased interest rate risk brought about by longer maturity terms or sell all of our loans to the secondary market. None of these actions will be in the benefit of our residential loan customers.

The inclusion of the other comprehensive income into the calculation of necessary capital is another part of the proposed standards that we feel needs to be either scrapped or limited to the largest of the banks in the country. This would insert a level of volatility into a bank's capital structure that has never been seen in the banking industry. Even though we classify all of our securities as available for sale, in practice we buy securities with the intent to hold to maturity. The new standards would inject volatility that we believe is unnecessary and would provide up and downs that would not be representative of the capital structure of a healthy bank. Investment yields are now at an all-time low and most if not all investment portfolios have large unrealized gains. Given the fact that rates will go up at some point in time, these gains will become losses and may require even the healthiest banks to obtain additional capital at a time when all of the other banks in the country are trying to do the same thing. This proposed standard will have no purpose other than to inject volatility that has never before been seen in the United States banking industry.

In conclusion, we respectfully urge you to carefully examine the likely effects that these new capital standards will have on not only our institution but on all of our nation's community and regional banks and take actions necessary to amend, revoke or at the very least exempt all but the largest banks from these standards.

Sincerely,

Greg L. McKee
President and Chief Executive Officer

Robert T. Smith
Senior Vice-President and Chief Financial Officer