



CITIZENS BANKING CORPORATION

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October 17, 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, S.W.
Mail Stop 2-3
Washington, D.C. 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

RE:

- Proposed Regulatory Capital Rules: Regulatory Capital, Implementation of BASEL III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (R-1442, Docket ID OCC-2012-0008, RIN 1557-AD46, RIN 3064-AD95)
- Proposed Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements (R-1442, Docket ID OCC-2012-009, RIN 1557-AD46, RIN 3064-AD96)

Ladies and Gentleman,

We, the undersigned directors of Citizens Bank and Trust and Citizens Banking Corporation, hereby submit this petition to urge the Federal Reserve Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corp. (the "banking regulators") to delay, study and significantly revise the Basel III proposal or exempt community banks from the proposed implementation of Basel III in the United States, allowing community banks to continue operating under Basel I capital regulations.

We believe the following:

- Before implementing massive and complex changes in capital structure, it is prudent to first take time to study in detail the potentially catastrophic economic impact of proposed changes on national, regional, state and local economies, particularly economies hardest hit by the "great recession". **A rush to implement this proposal is not Safe and Sound Banking!**
- Imposing complex and excessive capital standards will threaten the nation's economic recovery, and more importantly to our Community Bank it will threaten the economic recovery in Polk County, Florida, limiting lending, investment, and credit availability.
- Basel III will make community banks less efficient, forcing us to hire new compliance staff, add systems to compute complex risk weights for residential mortgages.
- Basel III will limit customer loan offerings to meet the requirements of complex risk-weighted buckets; resulting in disastrous and unintended consequences to the communities we serve.
- Including accumulated other comprehensive income (AOCI) as regulatory capital will dramatically increase regulatory capital volatility, requiring community banks to hold capital substantially in excess of regulatory requirements.
- Basel III will in hard economic times provide double reserves for expected loan losses, with a full reserve existing in the Allowance for Loan Loss and a full reserve sitting in Capital as well. Previously these two categories served different purposes, one for expected losses (ALLL) and the other unexpected losses (Capital). This excessive capital requirement during hard times may cause future recessions to be deeper and longer than the one we just experienced.
- Community Banks do not have easy access to the capital markets, and subjecting them to capital measurement systems that cause capital ratios to fluctuate dramatically based upon the Fed's interest rate policy is an extreme disservice the Bank and its shareholders.
- **Subchapter S Bank Holding Companies will be the most negatively impacted by dividend restrictions imposed by the proposed capital buffer. This restriction is unfair, and this inequity must be eliminated.** At a minimum the Subchapter S Corporation and its Subsidiary Bank must be able to pay dividends of at least 25% of taxable income to cover shareholder taxes.

In summary, we believe that community banks should remain on Basel I, which more accurately aligns their regulatory capital with the type of assets they hold and the relationship model they follow. Therefore, we urge the banking regulators to exempt community banks from the Basel III proposal

and allow them to continue to operate their banks under the Basel I capital framework, which has served their relationship-based banking models and this nation so well for over a generation.

The Board of Directors of Directors of Citizens Banking Corporation and Citizens Bank and Trust appreciates the opportunity to comment on this proposal, and we sincerely hope that you will give serious consideration to the this letter and the multitude of similar letters you have received on this topic in the last several months.

Board of Directors: Citizens Banking Corporation & Citizens Bank and Trust
2 East Wall Street Frostproof, Florida 33843

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Raymond W. Smith
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