



Citizens Tri-County Bank

October 10, 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 proposals¹ 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.

Citizens Tri-County Bank is a Subchapter S community bank that has served rural Tennessee for the past 40 years. We are expressing our displeasure in the proposal of Basel III and its potential effect on the rural community banks. Basel III in conjunction with other existing and proposed regulations jeopardizes the practicality of the community bank and forces bank shareholders to seek alternatives to further investment as new regulatory burden hinder growth in lending. Basel III was designed to apply to large banks that engage in highly leveraged activities the rigorously depleted capital levels and caused the financial downturn. Citizens Tri-County Bank is more concerned with the customer that we serve in our community than we are about international activity and qualifying hedge accounting as do large banks.

Citizens Tri-County Bank believes that the inclusion of accumulated other comprehensive income (AOCI) in capital for community banks will result in increased volatility in capital and would promptly deplete capital levels under certain economic conditions. This would force us to hold additional capital to compensate for the increase volatility and dissuade the holding of investments securities. This would mean that our capital levels would decrease as much as 10%.

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.*

Altamont (931) 692-3221	Coalmont (931) 779-2267	Dunlap (423) 949-2173	Jasper (423) 942-1990	Monteagle (931) 924-4242	Palmer (931) 779-3288
Pikeville (423) 447-2107	McMinnville Downtown (931) 473-5561	McMinnville Plaza (931) 507-2265	Signal Mountain (423) 886-2868	Soddy Daisy (423) 332-7110	South Pittsburg (423) 837-8645
Spencer (931) 946-2471	Tracy City (931) 592-9221	Tracy City Depot (931) 592-2741	Tullahoma (931) 455-3488	Tullahoma West Lincoln (931) 393-5535	Whitwell (423) 658-5880

Citizens Tri-County Bank is opposed to the phase-out of trust preferred securities (TRUPS) because it is a reliable source of capital for us and would be very difficult to replace. Basel III would be in contradiction with the Collins Amendment which provided an exemption for TRUPS issued before May 19, 2010 by banking organizations with assets under \$15 billion. As a holder of TRUPS, the phase-out of TRUPS would decrease our capital by 11% and would again create an additional burden for us, as a privately held company, to raise tier one capital. The new increase of risk weighted calculations and the determination of which risk weight category residential balloon loans go in will have one of the greatest effects to us and to the our customers. The higher risk weights for these loans will force us to originate longer term mortgage loans. This will greatly increase our interest rate risk and the operational cost for tracking loan to value ratios to determine the category will be costly. This proposal will adversely affect the housing market by driving up borrowing rates and limiting borrower access to financing as we will choose not to allocate additional capital to these balance sheet exposures. A limit on the dollar amount of mortgage loans will significantly be detrimental to rural Tennessee and would further depress the real estate market and economy, along with the people of middle and east Tennessee.

We also greatly oppose the prohibited distribution of dividends to our shareholders. Under the Subchapter S corporate, this would conflict with the requirement that shareholders pay income tax on earned income per the provisions of the Internal Revenue Code.

The figures below show the comparison between our current capital amounts as of June 30, 2012 and the required capital amounts under Basel III.

- Current Tier 1 Capital \$52,934 less the \$6,000 TRUPS would make our Tier 1 Capital be \$46,934.
- Basel III Tier 1 Capital \$57,138

The difference of \$4.2 million in AOCI, along with the loss \$6 million dollars that we have in TRUPS in capital would mean that we would have raise over \$10 million dollars in capital just to maintain Basel III capital requirements.

In summary, Citizens Tri-County Bank could potentially have a decrease of more than 20% in capital due to the proposal of the phase-out of TRUPS, the changes of AOCI and risk weights. This, along with the increase in capital requirements would be very damaging to our institution and our surrounding communities. We have been through one of the worst economic downturns since the Great Depression and have not had any capital issues according to current regulations. We ask that you fervently reconsider the implementation of Basel III to community banks.

Sincerely,



H. Glenn Barker, Chairman & CEO

cc: U.S. Senator Lamar Alexander
U.S. Senator Bob Corker
U.S. Representative Scott DesJarlais
Commissioner Greg Gonzales

Citizens Tri-County Bank Employees

Biel Wolf

Kay Brewer

Carolyn Harvey

Maricruz Dees

Jean Dean Tucker

Jessie Stockwell

Linda Ledbetter

Clayton K Smith

J. V. Bice

Michael Cunningham

Penny H. Armstrong

Kathy Dyles

Ruby May

Sam Mar

Shanna Stockwell

Liz Holloway

Brenda Sims

D. L. B.

Mark Kidwell

Carmen McCoy

Jana Stigler

Mistie Holloway

Bert J.

Glenda Ruth

Stacy Smith

Jimo Sims

Derek Brown

Mphils D. Vayh

Bob C. Cox

Lisa C. Rye

Buttney Scarborough

Kristin Angel

Harren Morris

Monty Full

Julie Morris

Debra McJannet

~~Carol & Bruce~~

Citizens Tri-County Bank Employees

Shelbi Graham
Inaci Dujers
Camdace Simmons
Whitney Bryan
Lizbeth Prince
Alicia Brown
Opri Boyd
Hilma Brudwell
Christel Shuman
Sharon Kenner
Susan Sisson
Crystal Jayne
Amy Smith
Suzanne Ford
Naomi Parsons
Hannah Hubert
Maddie Nuncey
Jean Jacobs

Paige M. Shuman
Mary Lynn Kenley
Summer Mueks
Sandra Sanders
Cheryl L. Focher
Tiffany L. Marks
Sue L. Focher
Mary Ann McEnty
Bonnie H. McEnty
Lisa Orange
Pat Powell
April Graham
Talitha Brown
Tonya Wockasen
Beth Henry
Philip Ray
Jeese Walter
Linda Clark

Citizens Tri-County Bank Employees

C. L. Smith

Mitzi Hankins

Vicki Smith

Linda K. Carter

Mary Campbell

Debbie Myers

M. Sharrick

Karen Rymer

W. J.

Gene White

Lisa C. Rue

Carol Gonz

Cindy Woods

Lisa Layne

Bridget Wooden

Peggy L. Bayless

Lenny Wilson

Gregory K. Johnson

Al Butler

Steph

Carla Savage

Cindy King

April Greiss

Kelley Jones

Donna Pennington

Miracle King

Kaye Wozz

Kendra R. Walker

Linda Sue Creighton

Violet Harris

Jan Brewer

Kimberly Beckitt

Janica Haulgas

Kathy Rankin

Marsha Nunez

Brittany Barrett

Citizens Tri-County Bank Employees

Lana Underwood
Veronica Whangin
Monica Gray
Raphael Stiles
Camille Galar
Dana Graham
Marlene Dells
Anji Womble
Barbara Kidner
Coleman Much
Paul Smith
Jennifer Smith
Christy Narramore
April West
April Holloway
Jennifer Baker
Wanda Laine
Patricia Boston

Cheryl Stiff
Angel Turner
Debra Riker
Joan B. Jones
Penny Tucker
Tracy Rickett
Samya Hale
Linda Higgins
Deanne Mounce
Sharon Bruce
Gwendolyn C. Daugherty
Dana D. Graham
Connie Johnson
Kimberly Walker
Sharon Nance
Heather Laine
Linda Camp
Mary Elizabeth Eassey

Citizens Tri-County Bank Employees

Desia J. Forgy

Melissa L. Smith

Vicki R. Smith

Patsy Kelly

Mitzi Hankins

Bridget Wood

Angela O. Brown

Careen Talcomb

Sara K. Coffey

Angela West

Sarah Seybert

Lura Summers

Donya Atterton

Melinda Chance

Ben Foy

Margaret Kuler

Zammi Cagle

Donya Layne

Kim Layne

Kathy Miller

Francis Kelly

Delash Christian

Laura Shrader

Terry Smith

Kim Layne

Miranda Hudson