



MERCHANTS & PLANTERS BANK

October 2, 2012

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

Robert Feldman
Executive Secretary
Attn: Comments/Legal ESS
FDIC
550 17th Street, NW
Washington, DC 20219

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 203
Washington, DC 20219

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Respectfully, I am writing you to consider a significant delay or complete elimination of the proposed implementation of Basel III capital requirements for community banks. Basel III needs much more debate, analysis, and direction before it is passed on to community banks. I am the CEO of Merchants & Planters Bancshares located in Bolivar, TN. We are a \$95 million community bank that has been in existence since 1905.

Community banks are on the rebound from the dire economic environment that we have suffered through over the past 4-5 years. Although the rebound will be very slow, it is a rebound nonetheless. We do not need a barrier such as Basel III to provide an almost complete set-back to the progress we have made.

Our bank has been profitable over the past several years, with the exception of 2008. A large write-down of Freddie and Fannie Preferred stock caused us to post a \$1 million + loss that year. Even though we were assured of the safety of Freddie and Fannie, Secretary Paulson and others pulled the plug on the preferred shareholders and other investors, crippling many community banks such as ourselves. We have recovered slowly but surely. Basel III will negatively impact our profits in the coming years, thus causing our overall strength to subside. I'll give a few examples:



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1. We have a mortgage division that provides conventional financing to new and existing homeowners in our communities. The implementation of Basel III will require us to hold much more capital based on our loan production. We sell all of our loans into the secondary market. With the significant tightening of underwriting guidelines over the past few years, only strong, qualified clients can expect to qualify for a conventional mortgage. Basel III will choke off this growth and increase interest rates as more capital will be required to be held against our production. Why would the government want to slow down the housing industry and effectively force many community banks out of the mortgage business?
2. Our bank qualified for the Small Business Lending Fund (SBLF), of which we took advantage to lend this money back into businesses in our community. Basel III goes directly against the purpose of the SBLF, which is to invest in small businesses. Again, additional capital requirements will choke and stall any growth in this segment.
3. Our current securities portfolio of about \$12 million has a gain of \$500,000 if we sold the portfolio today. This gain is not counted in our capital calculations, nor is the loss unless a trade is executed and a security sold. Under Basel, the inevitable rise in interest rates and proposed capital treatment will devastate our bank. Under a 300 basis point rate increase, our current portfolio would go from a \$500,000 gain to a \$790,000 LOSS. A 400 basis point rate increase would cause us to show a \$1.2 million LOSS in the portfolio. This in itself is not good, but under Basel these losses will be counted against capital. This, again, serves to cripple community banks.

Community banks are overregulated now, why add more regulation and fuel to the fire? In my opinion, relaxing regulation to a reasonable level will positively contribute to the health of the banking industry and the United States economy.

There are many trickle down effects to community banks that have not been vetted or thoroughly thought through. At the very least, please consider delaying Basel III for at least 12 months in order to fully flesh out intended AND unintended consequences. It would better serve the community banking industry if Basel III were ELIMINATED altogether for community banks. We want to continue to grow and prosper along with our small communities. Basel III will choke off growth completely. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Charles Newell'.

Charles Newell
President & CEO
Merchants & Planters Bancshares, Inc.
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