FMB

Farmers and Merchants Bank

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
VIA: regs.comments@federalreserve.gov
Re: Basel III Docket No. 1442

Office of the Comptroller of the Currency
VIA: regs.comments@occ.treas.gov
Re: Basel III OCC Docket ID OCC-2012-0008,0009, and 0010

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
VIA: comments@FDIC.gov
Re: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Re: Basel III Capital Proposals

Ladies and Gentlemen:

We appreciate 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. Farmers and Merchants Bank is a $580,000,000, six branch banking institution that is primarily located in South Georgia with one branch in the Conyers, Georgia area. The bank was chartered in 1907 and serves three of its six communities as either the only bank in town or only one of three banks in town. The town in which we are the only bank is 25 minutes from the next closest town with a bank. Our customers are farmers, factory workers, small business owners, teachers, retirees, students, professionals, and churches. While we do serve some large companies, we are primarily a "small town community" bank. As such we provide lending services to individuals and companies that most large banks would not even underwrite.

Most of our customers are low to moderate income consumers and small businesses. The new regulations that are being put in place to "protect" the consumer are in effect foreclosing their ability to obtain a loan. The regulations have effectively protected them right out of the ability to obtain a loan from a bank; the large banks will not underwrite them and the community banks cannot and still be compliant.

Our community bank is under regulatory orders to raise capital. Due to the uncertainty in the current economic environment, we have not been able to raise capital at this time. We have lowered our overhead, shrunk our assets, managed our nonperforming assets and have come through the worst just to be shot down by an unforeseen change in capital definition for which we could not have planned. We have overcome real issues in the market place with nonperforming assets, expenses associated with other

[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.*

P.O. Box 3580 • 3303 Inner Perimeter Rd. • Valdosta, GA 31605 • (229) 244-3585

real estate, and an inability to raise capital in the current economic environment and have survived using core earnings to offset these losses, which means that we have not had those earnings to contribute to capital. Even with all of our challenges, we have seen in the last six months clear indications that we will survive the economic downturn and be able to continue to serve the individuals and businesses based in our small communities. At this time, we anticipate seeing a profit in 2014. However, if Basel III is enacted against community banks, it will take considerably longer to resume paying dividends. The impact on the communities that we serve will be detrimental. In one community we are in the top three businesses that provide employment. In total the closure of our institution would result in approximately 130 people losing their jobs because of a definitional change in capital that does not appear to serve any real purpose and will not achieve its intended result.

The requirements under Basel III for us to accumulate and hold additional capital coupled with the changes in risk weightings will firmly entrench us in a significantly undercapitalized classification. This will restrict us from adequately serving our communities anytime in the near future.

In addition to the impact on our ability to serve our customers, we will be required to reorganize our company to address the increased workload associated with collecting the information on the existing portfolio, as most of the requirements go into effect immediately in January 2013. The bank will be required to balance controlling personnel and technology expenses against the increased workload necessary to comply with Basel III. But Basel III is not the beginning. Most community banks, and particularly ours, are already having to decide how to handle the impact on earnings and capital retention from the increased costs associated with complying with the requirements of the Dodd Frank Act. Our bank is struggling to keep up with all of the regulatory changes that have already been implemented and the avalanche of ones to come, but hesitate to hire qualified personnel to address these issues since we need to control expenses.

Community banks are being put between the proverbial rock and hard place. If we structure our institution to comply with the regulations, then we increase our expenses to do so. This will negatively impact earnings and capital, especially since the ability to increase capital is at an all-time low and most of the regulatory changes are restricting what we can do on the earnings side. However, if we do not do all that is necessary to be compliant, we face the risk of fines and enforcement actions. The same will be true if the Basel III recommendations are applied to community banks. The costs of complying with Basel III will be as prohibitive as the costs associated with failing to comply.

While we are just one small town Georgia community bank, if enough community banks are in our position or even close, it could be the loss of the community. Community banks are vital components of the communities they serve; not only as employers but as providers of funding necessary to stimulate their economies. We appreciate the opportunity to be heard and look forward to a solution that provides the protections your organizations believe need to be implemented and yet allows community banks to be a viable player in the communities they serve. Surely there is a more reasonable solution to the capital issue.

Regards,

Jeff Parrish, CEO/President

cc: Senator Saxby Chambliss
Senator Johnny Isakson
Congressman Jack Kingston