

FARMERS & MERCHANTS BANK

111 WEST CLAYTON STREET
P.O. BOX 278
BALDWIN, MISSISSIPPI 38824

MEMBER
FDIC

October 16, 2012

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365-1200
720-4546

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov
Subject: "Basel III Docket No. 1442"

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov
Subject: "Basel III OCC Docket ID OCC-
2012-0008, 0009, and 0010"

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429
comments@FDIC.gov
Subject: "Basel III FDIC RIN 3064-AD95,
RIN 3064-AD96, and RIN 3064-D97"

Re: Basel III Capital and Risk-Weighting Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals that were recently issued for public comment by your agencies. We specifically appreciate the opportunity to discuss our concern about the impact of these proposals – particularly the proposed minimum capital ratios and risk weighting of certain assets – on our bank and our customers.

Our bank, Farmers and Merchants Bank, serves the towns/cities of Baldwin, Booneville, Marietta, Mantachie, Mooreville and surrounding communities. We are the only financial institution to serve consumers in two of these towns. We manage \$220 million customers' assets. For over 70 years our community bank has offered financial services to families for generation after generation. Our bank has grown by offering citizens of our communities affordable banking products such as residential mortgages and commercial loans. These products have allowed our citizens to start their own businesses, buy their own homes, and improve conditions in our communities. However, under the new Basel III with proposed capital rating rules we will be less likely to provide opportunities for the next generation.

Historically we have provided economic development, financial services, small business opportunities, first time home buyers and multitudes of financial and loan products to a broad

spectrum of the communities we serve. With less funds to invest under Basel III those rural customers will become underserved communities with little hope of economic development.

Like most community banks, our assets include a high concentration of residential mortgages that, for valid safety and soundness reasons, do not meet the definition of Category 1 loans that large, institutional banks typically have on their balance sheets. Many of our customers do not want or do not qualify for a Category 1 mortgage due to various reasons, such as no appraisal due to lack of comparables, size of the loan, or credit history. Additionally, it is not prudent for our bank to carry long term mortgage loans. Instead we believe that our customers are better served with our shorter terms balloon loans that generally renew to fully amortize the loan.

Under the proposed risk-weighting rules, the increase in risk weighting of these loans may triple in some cases from 50% to 150%. We currently have approximately \$40,000,000 of these or similar loans on our balance sheet, which constitute nearly 34% of our total assets. If the proposed rules are adopted, we may be faced with the decision to protect capital and forego these loans entirely. We have limited access to raising significant capital and the bank will lose a significant source of income if it must forego these loans. The citizens of our communities could be forced to look elsewhere for such products. Their choices will be limited to large institutions – who likely won't be willing to extend credit to these borrowers – or other lending institutions that often only give loans with truly punitive terms and conditions.

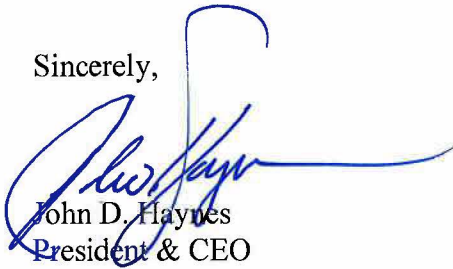
For the same reasons, the increase in risk weighting of HVCRE will stifle much of the local commercial development that is vital to our small towns. Members of the community come to our Bank for loans that will allow them to buy the real estate to start their own restaurants, convenience stores, and other businesses. If the proposed rules are adopted, we may be forced to discontinue these loans and shut out would-be business owners.

As you are aware, the recent financial crisis was for the most part not caused by community banks such as ours. We have remained strong through these difficult times because of our willingness to serve our communities and trust in our customers. Yet, the impact of the proposed rules will be borne disproportionately by community banks which lack the resources to implement these excessively cumbersome and complicated rules. If the proposed rules are finalized, we ask that you consider adopting the following:

- Exempting banks under \$10 billion in total assets from the Basel III minimum capital and risk weighting rules, or, at a minimum, exempting such banks from the proposed rules as they pertain to residential mortgages, commercial real estate, and AOCI;
- Allow existing assets to be grandfathered in using the current risk weighting rules; or
- Revising the risk-weighting and capital rules to more accurately reflect the risks imposed by institutions such as ours and the realities of our operations.

Again, we sincerely appreciate the opportunity to comment on these proposed rules. We hope that you will seriously consider our comments and the effect that these rules will have on our local communities.

Sincerely,



John D. Haynes
President & CEO

JDH:chb

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