FARMERS & MERCHANTS BANK

41 SOUTH FIRST STREET · MIAMISBURG, OHIO 45342 · (937) 866-2455
3235 ALEX-BELL ROAD · WEST CARROLLTON, OHIO 45449 · (937) 299-4250
2367 BEECHWOOD DRIVE · GERMANTOWN, OHIO 45327· (937) 855-3114

October 18, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.,
Washington, D.C. 20551
Docket No. R–1430; RIN No. 7100–AD87
Docket No. R–1442; RIN No. 7100–AD87

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219
Docket ID OCC-2012-0008
Docket ID OCC-2012-0009

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
FDIC RIN 3064–AD95
FDIC RIN 3064–AD96

RE: ***Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action.***

Dear Sir or Madam:

This letter is submitted in response to the requests for comments in the notices of proposed rulemaking (NPR) on minimum regulatory capital and the standardized approach for risk-weighted assets titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action;* and *Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements.*

Although it appears the Basel III proposals were intended for large, sophisticated financial institutions community banks are being thrown into the mix. These new capital proposals are an unnecessary as our balance sheets are so simple. These proposals will just add to the costly regulatory burden that is being pushed down to the community banks as "best practices".

As a community banker I recognize the importance of appropriate levels of capital as a key component of a safe and sound bank. Required maintenance of adequate levels of capital is good for all banks and the regulatory agencies already have minimum and well capitalized standards for community banks. When reviewing the size, complexity, and scope of community banks, it should be very clear to the regulators that community banks do not need a new series of regulatory burdens in addition to what already exists today. My concern is the burdensome process and consequences of instituting complex new rules on community banks. It is not necessary to redefine capital adequacy for all banks, regardless of size or risk profile, to accomplish the goal of adequate capital. Community banks should be exempt from these proposals and allowed to continue to measure capital according to present methodology.

Accumulated Other Comprehensive Income (AOCI). This is an issue that will potentially have significant adverse impact as proposed. While we have sizeable unrealized gains in our securities portfolio today, our risk analysis shows this will quickly turn into a very large unrealized loss in a rapid rate increase environment. In both situations these are paper gains and losses and we have never used our portfolio for trading or unusual activity to see these kinds of gains or losses. We clearly monitor these gains and losses and they are in all of our risk models. This could easily create a scenario in which our well-capitalized bank could face severe sanctions due solely to market rate movements. Further, the "mark to market" requirement will require us to hold more capital to compensate for inevitable swings in interest rates, thus hindering growth and lending opportunities.

The logical thing to do is to exempt all but those complex international banking institutions considered "systemically important" from these burdensome, elaborate, and counterproductive capital rules. Community banks should be allowed to continue using the current Basel I risk weightings as they have and will continue to serve banks, customers, and regulators very well.

Thank you for the opportunity to comment on these proposals.

Sincerely,

Shon B. Myers
President and Chief Executive Officer