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September 21, 2012

Robert E. Feldman,
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Basel III Comments RIN 3064-AD95 & RIN 3064-AD96

Dear Mr. Feldman:

Thank you for extending the comment period, and the opportunity to weigh in on the proposed rules, before they become, yet another, over top regulatory burden on small community banking in America. Just the fact proposed rules were complex enough in nature to require an extended comment period speaks volume to a small $140 million dollar rural Wisconsin Bank. Farmers & Merchants State Bank and most of its peer group in the community banking space operates in a relatively conservative nature. Even the outliers or troubled banks among us are easily identified and regulated within the current capital guidelines. Therefore, the complex rules just add unnecessary cost and they increased the capital needed to manage the same balance sheet we have today. This will tighten credit in an economy which needs just the opposite.

Assuming I already lost my argument in the paragraph above, that rule as a whole was never intended and **is not necessary for community banks under $10 Million,** then, at least consider two areas which are particularly unproductive for community banking.

First the most egregious section of the proposed rules is inclusion of unrealized gains/losses on Available for Sale (AFS) securities. I believe the unintended consequence of this rule will reduce lending in a rising rate environment. By including these unrealized gains / losses in capital, it will be much harder for banks to manage interest rate and liquidity risk. Banks hold high quality investments, so most of the

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price changes are due to interest rate movements, not credit risk. This rule isolates one chunk of the Banks balance sheet and distorts tier one leverage.

Therefore, I recommend the removal of this entire unrealized gains / losses issue from the regulation.

Second issue I take exception to is the risk weights for residential mortgage assets will further deplete capital levels by requiring additional capital cushions for certain residential mortgage loans that do not fit within a narrow definition of assets qualifying for preferable treatment. As a small community bank, Farmers & Merchants State Bank serves our communities with Home Mortgages and HELOC products. The current systems employed in the reserve for loan loss analysis account for the credit risk in this activity. Placing complex capital allocation seems like using a belt and suspenders. The additional cost of capital under the new rules would negatively affect loan pricing. Also current portfolio loans on the books were not priced under these tighter capital rules. I strongly believe the current capital risk rating structure is more than adequate for Community Banks.

Banks Under $10 Million are not too big to fail and accordingly do not need the level of capital regulation which may be appropriate for very large institutions.

Thank you for the opportunity to comment and any consideration given to ease the regulatory burden on community banking.

Sincerely

William T Hogan

William T Hogan
Executive Vice President & CFO