Farmers and Merchants Bank

May 12, 2020

Federal Insurance Deposit Corporation
Attention: Comments
550 17th Street NW
Washington, DC 20429

RE: Interim Final Rule – Regulatory Capital Rule: PPPLF and PPP Loans (RIN 3064-AF49)

The Paycheck Protection Program Lending Facility (PPPLF) and Paycheck Protection Program (PPP) Regulatory Capital Rule alleviates the exposure associated with asset inflation caused by PPPLF borrowings. However, the ancillary exposure related to the PPP loans themselves remains to be addressed. Once a PPP loan is funded by an insured depository institution (IDI), the customer deposits the money into their account at the institution. Therefore, the deposits linked to the origination of PPP loans artificially inflate an IDI's total assets until the cash can be used for specially designated purposes. The average total assets for each month in the past quarter are used to compute an institution's leverage ratio. Although the deposits associated with PPP loans are transitory in nature, the increase in total assets will negatively affect the leverage ratio for an entire quarter.

To mitigate the deposit insurance assessment effects of participation in the PPP, the PPPLF, and the Money Market Mutual Fund Liquidity Facility, the proposed rule announced on May 12, 2020, would exclude all PPP loans from an institutions loan portfolio. Yet, only loans pledged to the PPPLF are excluded from an institution's total assets.

To avoid inadvertently penalizing IDIs for serving their communities during a time of crisis, please consider allowing cash from PPP loan deposits to be removed from total assets when calculating the leverage ratio and determining the deposit insurance assessment.

Thank you for your consideration.

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Jeff Parrish, CEO
Farmers and Merchants Bank