

From: The Farmers and Merchants Bank, Grant Whaley
Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules
Subject: Regs H & Y Regulatory Capital Proposals

Comments:

October 5, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Basel III Capital Proposals

Dear Madame Secretary:

Thank you for the opportunity to provide comment on the Basel III proposals that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

My bank, The Farmers & Merchants Bank, is located in Boswell, Indiana, a town of about 800 people. For the past 110 years, my bank has served this community in Benton and Warren County. We have grown steadily over the years and are now over \$100 million in total assets. Our staff is very active in serving in many ways in our community. We give away thousands of dollars every year to worthy causes. We have helped our customers buy their dream home, buy their first car or tractor. We have helped farmers grow their business. We are an economic force for good in our little corner of the world.

I am writing to you to ask you to please stop piling on more and more and more regulations. We have never been the problem, but we feel like we are being punished for others' mistakes. Our staff is committed to following the rules that are laid out for us, but the sheer number of regulations we must follow keeps growing. Not only that, but some of the proposed regulations are going to end up actually hurting the people that I believe you are trying to help.

The latest case in point is the issue of BASEL III as it relates to risk weighting for mortgage loans. We have no system in place that can track the loan to value ratios we would be asked to produce. In order to generate the required information, we would have to physically look through every mortgage loan folder in our portfolio. Also, there are times when, in order to help someone own their own home, we used to make loans at higher than 80% loan to value. This has been a rare occurrence, but it has certainly helped some in our community to have the opportunity to own their own home. Being penalized for making these loans will cause us to cease this practice. By requiring higher risk weights on loans with adjustable rates will virtually eliminate our home mortgage lending. We fund these loans primarily with one year certificates of deposits or savings accounts. Those tend to re-price every year. We simply cannot take the interest rate risk of making 15 or 30 year fixed rate mortgages funded by one year money.

As I said, we are a very small bank in a small community. We are happy to

follow common sense rules because we do not want to harm our customers either. But this latest proposal is yet another blow to us that we must absorb. I am not sure how many more we can withstand before we waive the white flag. If The Farmers & Merchants Bank ceases to exist, I highly doubt that there will be another financial institution that will support our small community to the extent we have in our 110 year history. I can only assume that we are not alone in this.

Please, please consider the potential damage this regulation will have on "Mainstreet, America." Thank you for allowing me to comment on this.

Sincerely,

D. Grant Whaley
President
The Farmers and Merchants Bank