



October 19, 2012

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Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
[regs.comments@federalreserve.gov](mailto: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, D.C. 20219  
[regs.comments@occ.treas.gov](mailto: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 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429  
[comments@FDIC.gov](mailto:comments@FDIC.gov)  
Subject: "Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97"

RE: Basel III Proposal Capital and Risk Weighting Rules

Ladies and Gentlemen:

This letter is being written to comment on the proposed rules for Basel III. We appreciate the opportunity to respond to your agency.

Merchants and Farmers Bank, Holly Springs, Ms was chartered March, 1899 through the State of Mississippi. We are a \$90,000,000 financial institution serving Marshall and Benton Counties in North Mississippi for over 113 continuous years.

Under the proposed rules, all banks regardless of size, are required to deduct from Tier 1 Capital all unrealized losses on all available for sale securities. This will have a negative impact on our liquidity and capital management.

Compliance costs associated with the implementation and maintaining the rules will be borne in a disproportionate share by community banks of all sizes. This, in our opinion, could force consolidation of the community banks within our state and restrict banking services to the lower and middle class customers who make up the majority of our clients.

Reviewing our loan portfolio, 74% of our loans are secured by real estate and half of those are one to four family residences. We have prided ourselves in financing local homes for those who would not qualify for conventional mortgage products. Based on the Category 2 mortgage definition, most of these loans would fall in that classification. If we are required to increase capital for making these loans, we would in all likelihood have to discontinue taking applications and no longer offer them to the communities which we serve. This could also have a larger impact on the sale and value of homes in our area if financing were not available. It is also understood that we would have to add additional capital for past due loans in this category even though they are accounted for in our Loan Loss Reserve Calculations. This would require us to have funds set aside for the same loan twice, once in Reserves and again in the Capital Account.

In order to comply with these rules, our business plan would have to change drastically to the detriment of our customers.

Our bank is also a Subchapter S Corporation. The volatility inherent in including AOCI in the capital calculation, as well as the reduction in capital ratios causes an increase in risk weights due to our mortgage loan portfolio, this could very well result in our organization being in a taxable position, but unable to make distributions to our shareholders to pay the personal income tax liability past on to them. This would diminish access to one of our capital sources, our current shareholders.

We feel these rules will actually punish the very banks that had nothing to do with the financial crisis, yet we are bearing the brunt of the regulations and expense to comply.

Our bank, as well as others in our community, does not have access to the Capital Markets available to larger financial institutions. Should there be a need to raise additional capital, there are very few options available to banks our size which could force the sale or consolidation.

We ask that you consider the following:

Exempting banks under \$10 Billion in assets from the proposed rules as outlined in the Collins Amendment to the Dodd-Frank Wall Street Reform Act.

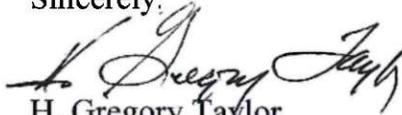
Allow banks, with assets less than \$10 Billion; be grandfathered on existing loans under current risk weighting guidelines.

Eliminate the increases to the risk weighting of residential mortgages and HVCRE loans.

Eliminate the revisions to the deductions, such as AOCI from Capital.

We appreciate the opportunity to respond to the proposed rules. Your serious consideration on our comments would be greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Gregory Taylor". The signature is written in a cursive style with a large initial "H" and "G".

H. Gregory Taylor  
President and CEO

Cc: Senator Thad Cochran  
Senator Roger Wicker  
Congressman Alan Nunnelee  
Congressman Bennie Thompson  
Congressman Greg Harper  
Congressman Palazzo