

From: Farmers & Merchants Bank, Jeff G. Dawson
Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules
Subject: Regs H & Y Regulatory Capital Proposals

Comments:

Date: Sep 26, 2012

Proposal: Regulatory Capital Rules: (1) Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, & Transition Provisions; (2) Standardized Approach for Risk-weighted Assets; (3) Advanced Approaches Risked-based Capital Rule & Market Risk [R-1442]
Document ID: R-1442

Revision: 1

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Affiliation (if any): Farmers & Merchants Bank

Your comment: September 25, 2012 DOCKET # R-1442 To Whom It May Concern: I'm commenting on the suggested 1 - 4 Family Real Estate loan classification for BASEL III. I understand there will be a category 1 & 2 for risk weighting purposes. We are a small rural community bank with approximately 30% of our loan portfolio in 1-4 family residential property. Historically we have structured most all of these loans as 15 to 30 year amortizations with a 3 to 5 year balloon feature. We have done this to eliminate Interest Rate Risk exposure for safety and soundness purpose. When the new regulations on 1 - 4 Family Real Estate loans were issued via "High Priced Mortgages / Safe Harbor Act" we started structuring all of our new 1 - 4's on 15 to 30 year amortizations with a 7 year balloon feature to reduce pricing and underwriting restrictions. I would likely ask that you consider classifying the 7 year and above balloon featured 1 - 4 family mortgages into the CATEGORY ONE class just like fixed rate mortgages and adjustable rate mortgages with certain conditions. It just makes sense to me in that the average life of a 1 - 4 family mortgage is 7 years. I personally think all balloons should be category 1. These are safer investments for our institutions in that they help eliminate rate risk. We learned our lesson back in the late 70's / early 80's from what happened to the Savings and Loan Industry from fixing loan rates for long terms and funding these investments with short term CD money. Are we assessing risk percentages to credits according to the BANK'S RISK or RISK TO THE CUSTOMER? Sincerely, Jeff Dawson - President Farmers & Merchants Bank -

P.S.

Will I get any kind of confirmation that this was received and reviewed?