From: Farmers & Merchants Bank, Jeff Dawson

Proposal: 1442 (RIN 7100-AD 87) Regs H, Q, & Y Regulatory Capital Rules

Subject: Regs H & Y Regulatory Capital Proposals

Comments:

To whom it may concern:

Im 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 weiighting 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 stucturing 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 kindly ask that you consider classifying the 7 year and above balloon featured 1-4 family mortgates 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
Farmers & Merchants Bank

Ps. Will I get any kind of confirmation that this was recieved and reiviewed?