State Bank
OF SOUTHERN UTAH

377 North Main Street • P.O. Box 340 • Cedar City • Utah • 84721-0340
Phone (435) 865-2300 • Fax (435) 865-2365

September 8, 2004

1479

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/ Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

RE: RIN Number 3064-AC50

Dear Mr. Feldman;

I appreciate the opportunity to comment on proposed revisions to the Community Reinvestment Act (CRA). I hope you will give careful attention to the comments of a smaller community bank like my own that live in the "real America", because I believe the revisions you are considering are essential to our long term financial health. We are being inundated by regulations that endanger our survival.

I am the President and CEO of State Bank of Southern Utah headquartered in Cedar City, Utah, a small town of 22,000 located among the beautiful National Parks and situated on Interstate 15 about half way between Salt Lake City and Los Angeles. We were chartered in 1957, now have about $390 million in assets and were recently examined under the "large bank" criteria for CRA. Our goal has been to remain a "community bank" serving only southwestern Utah. We have over 400 stockholders owning 13 branches that serve communities ranging in populations from 400 to 60,000 people.

I am writing to strongly support the FDIC's proposal to raise the threshold for the streamlined small bank CRA examination to $1 billion. This would greatly relieve the regulatory burden imposed on many small banks such as State Bank of Southern Utah under the current regulation, which places the same regulation on us as multi-billion dollar banks who serve many states. It is neither logical nor equitable to judge my bank on the same standard as the mega-banks. I do understand this is not an exemption from CRA because my bank has been meeting "streamlined" standards for years and we believe in helping our communities because our survival is tied to their well being. In 2004 we experienced our first "large bank" examination. My estimate is that it took our bank three to four times longer to prepare the documents and respond under this examination as the streamlined exam. State Bank now has three full time equivalent employees in our compliance and audit department and at least one third of their time is spent on CRA and compliance issues. As the CEO, I am spending much more time coordinating the response to CRA issues. The CFO of the bank spends time preparing information, the chief lending officer and other business and consumer officers file reports. I could have my officers and employees compile the exact figures of the increased burden but I would be taking them away from the job you want us to do, provide financial services to the communities we serve.

Community groups and CRA activists have been critical of raising the threshold because they believe this action would somehow cause smaller banks to neglect their responsibility to low and moderate income residents in the communities we serve. I believe those concerns are not consistent with the facts. We were a founding member of the Utah Community Reinvestment Corporation, a consortium of Utah banks and Industrial Loan Corporations dedicated to providing affordable housing in our state. State Bank provided the first housing loan for developers assisting low income housing in Cedar City by using long term borrowings from the Federal Home Loan Bank. We provided the first tax credits for low income apartment units in Iron and Beaver Counties. The bank has also provided numerous SBA and FSA guaranteed loans to provide services and jobs in our areas. All of these things were done prior to becoming subject to the "large bank" designation. State Bank of Southern Utah certainly does not intend to stop doing those things because it has over $250 million dollars in assets. I wonder if the opposition by CRA activists is motivated more by a fear that they will not be able to get funding from banks for their organizations than by a real fear that low income groups will be damaged by the regulatory change.

I approach the addition of a community development criterion to the small bank examination with some hesitancy, not because I am afraid to meet the standard, but because these types of compromises tend to take on a life of their own and become more time consuming than originally intended. I suppose if this is a political expediency to satisfy the Federal Reserve, the OCC and community activists I could live with that addition if it is framed so that it does not become a nightmare of regulation. It should also only apply to banks over $500 million in assets because the $250 million dollar mark is too low if you consider how long ago it was set and the time value of money. My biggest objection to the community development criterion is that the initial description of the CD criteria is so vague, i.e. evaluation of community development activities (Community development lending, services, and/or investments), with the mix to be determined "by the opportunities present in the community and the bank's own strategic strengths", that any bank might become the whipping boy of any particular examiner with an agenda.

The only benefit of the Community Development criterion may be it would help us as we seek to find suitable investments in smaller communities that no longer fall in low/moderate income census tracts. As of the last census, three of our counties are no longer in the low/moderate income tracts as they were in the 1990s. (Although for the life of me, I cannot understand how this happened; one ranks fourth lowest in the state in per capita income and another is seventh lowest.) However, these counties are in desperate need because of the lack of primary income producing jobs. Helping them achieve such job growth is one of our primary goals.

Finally, State Bank is strongly opposed to the concept of creating a Community Development criterion as a separate test. First, this gives the impression that CD lending is separate from providing credit to the entire community which is the standard under CRA. The current small bank test looks at loan to deposit ratio, percentage of loans in the assessment area, the banks record of lending to borrowers of different income levels and businesses and farms of different sizes and the geographic distribution of its loans. The addition of a CD category could fit well within the concept of serving the whole community without making it a separate criterion. I believe that all lending can help the community especially loans to industrialists or entrepreneurs who create jobs for residents. After all, how many jobs have you seen offered by low income people?

In summary, I extend my thanks to the FDIC for having the courage to place this proposal forward so those of us most affected can make our most persuasive comments before you. Once again, you have proven you value the opinion and well-being of smaller institutions that provide a very important segment of our banking system. Once again the Federal Reserve and the OCC have capitulated to other interests and show they have little understanding of community banks and the role they play in our credit system.

Sincerely,

Ronald W. Heaton

Ronald W. Heaton,
President and CEO

Cc: Federal Reserve
American Bankers Association