THE CITIZENS STATE BANK
OF TAYLOR COUNTY

April 6, 2004

Ms, Jennifer J. Johnson, Secretary
Board of Governors of the Federal Rserve System
20th Street and Constitution Avenue,NW
Washington, DC 20551

Attn: Docket No. R-1180

Dear Sir or Madam:

I greatly welcome the regulators' effort on the critical problem of regulatory burden. We are a community bank and we work hard to establish the trust and confidence with our customers that are fundamental to customer service', but consumer protection rules frequently interfer with our ability to serve our customers. The community banking industry is slowly being crushed under the cumulative weight of regulatory burden, something must be addressed by Congress and the regulatory agencies before it is too late. This is especially true for consumer protection lending rules, which though well intentioned, unnecessarily increase costs for consumers and prevent banks from serving customers. While each individual requirement may not be burdensome itself, the cumulative impact on consumers lending rules, by driving up costs and slowing processing time for loans from legitimate lenders, helps create a fertile ground for predatory lenders. It's time to acknowledge that consumer protection regulations are not only a burden to banks but are also a problem for consumers.

One of the most burdensome requirements is the three-day right of rescission under Regulation 2. None of our customers understand why they have to wait three additional days to receive the funds after the loan is closed. It would be a different story if the bank approached the customer, but the customer comes to the bank for the loan and they can not see why funds can not be advanced on the day it is closed. Even though this is a statutory requirement, inflexibilty in the regulation making it difficult to waive the right of rescission aggravates the problem. If not outright repealed, depository institutions should at least be given much greater latitude to allow customers to waive the right.

Another problem under Regulation Z is the definition of the finance charge. Assessing what must be included in - or excluded from - the finance charge is not easily determined, especially fees and charges levided by third parties. And yet, the calculation of the finance charge is critical in properly calculating the annual percentage rate. This process desperately needs simplifaction so that all consumers can understand the APR and bankers can easily calculate it.

Resolution of billing errors within the given and limited timeframes for credit

card disputes is not always practical. The rules for resolving billing errors are heavily weighted in favor of the consumer, making banks increasingly subject to fraud as individuals learn to game the system, even going so far as to do so to avoid legitimate bills at the expense of the bank. There should be increased penalities for frivolous claims and more responsibility expected of consumers.

Regulation B creates a number of compliance problems and burdens for banks. Knowing when an application has taken place, for instance, is often difficult because the line between an inquiry and an application is not clearly defined.

Another problem is the issue of the spousal signatures. The requirements make it difficult and almost require all parties - and their spouses - come into the bank personally to complete documents. This makes little sense as the world moves toward new technologies that do not require physical presence to apply for a loan.

Another problem is the adverse action notice. It would be preferable if banks could work with customers and offer them alternative loan products if they do not qualify for the type of loan for which they originally applied. However, that may then trigger requirements to supply adverse action notices. For example, it may be difficult to decide whether an application is truly incomplete or whether it can be considered withdrawn. A straightforward rule on when an adverse action notice must be sent that can easily be understood should be developed.

Regulation B's requirements also complicate other instances of customer relations. For example, to offer special accounts for seniors, a bank is limited by restrictions in the regulation. And, most important, reconciling the regulation's requirements not to maintain information on the gender or race of a borrower and the need to maintain sufficient information to identify a customer under section 326 of the USA PATRIOT Act is difficult and needs better regulatory guidance.

The HMDA requirements are the one area subject to the current comment period that does not provide specific protections for individual consumers. HMDA is primarily a data-collection and reporting requirement and therefore lends itself much more to a tiered regulatory requirement. The current exemption for banks with less than $33 million in assets is far to low and should be increased to at least $250 million.

The volume of the data that must be collected and reported is clearly burdensome. Ironically, at a time when regulators are reviewing burden, the burden associated with HMDA data collection was only recently increased substantially, Consumer activists are constantly clamoring for additional data and the recent changes to the requirements acceded to their demands without a clear cost-benefit analysis. All consumers ultimately pay for the data collection and reporting in higher costs and regulators should recognize that.

Certain data collection requirements are difficult to apply in practice and therefore add to regulatory burden and the potential for error, e.g.,assessing loans against HOEPA (the Home Owners Equity Protectin Act) and reporting rate spreads; determining the date the interest rate on a loan was set; determining physical property address or census tract information in rural areas, etc.

The current flood insurance regulations create difficulities with customers, who often do not understand why flood insurance is required and that the federal government - not the bank - imposes the requirement. The government needs to do a better job of educating consumers to the reasons and requirements of flood hazard insurance. Flood insurance requirements should be streamlined and simplified to be understandable.

It would be much easier for banks, especially community banks that have limited resources, with regulatory requirements if requirements were based on products and all

The Citizens State Bank of Taylor County
Reynolds, Georgia

rules that apply to a specific product were consolidated in one place. Second, regulators require banks to provide customers with understandable disclosures and yet do not hold themselves to the same standard in drafting regulations that can be easily understood by bankers. Finally, examiner training needs to be improved to ensure that regulatory requirements are properly - and uniformly - applied.

The volume of regulatory requirements facing the banking industry today presents a daunting task for any institution, but severely saps the resources of community banks. We need help immediatley with this burden before it is too late. Community bankers are in close proximity to their customers, undertand the special circumstances of the local community and provide a more responsive level of service than megabanks. However, community banks cannot continue to compete effectively and serve their customers and communities without some releif from the crushing burden of regulation. Thank you for the opportunity to comment on this critical issue.

Sincerely,

LaWanna Hill
President & CEO

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