From: "HENRY FERGUSON" <HENRY.FERGUSON@countybank.com> on 04/09/2004 03:00:19 PM
Subject: Economic Growth and Regulatory Paperwork Reduction Act of 1996 Review

April 9, 2004
Ms. Jennifer J. Johnson
Secretary Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Ref: Docket # R-1180
Dear Madam:
I am writing to express concerns on the increasing regulatory burden that Community Banks are having to deal with and the associated costs. Many of the regulations increase the borrowing costs to the end user of credit, the Consumer. Please keep in mind that we are not only dealing with mature regulations (most consumer lending regulations are mature) but new regulations like the US Patriot Act (BSA/AML enhanced due diligence), Fair and Accurate Credit Transactions Act of 2003. These new regulations will require Community Banks to use more resources to comply. These will also increase the cost of banking for the consumer.

I have worked in banking for over 30 years. There is a need for regulations but I feel some regulations like HMDA and the data collection requirements of CRA are not necessary and could be reduced or eliminated because they do not provide any protection or benefit to the consumer. They have become a numbers collection game. The following are some examples of the costs and the benefits of a few of the regulations.

Regulation "C" HMDA:

County Bank only reports about 114 HMDA loans a year. Our estimated costs of resources to compile the data, report the data, and to complete the required forms is $40,000 annually. Of the 114 loans stated above only 54 were approved. That works out to a cost of $740 per approved loan. The questions that needs to be asked are, did the consumer or the bank receive any benefit from the $40,000 it costs to track the HMDA data. The loans would have been made even if there was no HMDA data collection required. The costs involved are passed along to the consumer and they did not receive any benefit from the HMDA data. Other than our regulatory agency (Federal Reserve Bank) we have not had a request from anyone for a copy of our HMDA data in the past four years.

Regulation BB CRA:

As a Community Bank, County Bank makes over 613 small business and farms a year. These loans would have been made even if there was not a CRA data reporting requirement. These are the types of loans a Community Bank normally makes. The estimated costs to collect and report CRA data, community service hours, donations, and investments annually are $80,000.

In addition to the $80,000 we must find CRA qualified investments. The CRA investments presented to us by brokers generally have a lower yield and a longer term than we would normally purchase. The investment test has become an income source for underwriters and syndicator of CRA qualified bonds and LMI tax credits. Community Banks could use the millions of dollars in income the syndicator are making to benefit their local communities. These dollars could provide additional resources to fund loans or grants that would go directly to the LMI residences of the communities we serve.

BSA/AML Enhanced due diligence:

The regulatory requirements of the US Patriot Act are having a dramatic impact on the resources of Community Banks. We have had to add additional staffing, software, and computer hardware to comply with the Act. The estimated additional costs to comply with BSA/AML this year are over $200,000.

Fair and Accurate Credit Transaction Act of 2003 (FACT-New Consumer Regulation):

This is a brand new Act that we will have to comply with by December of 2004. The regulatory agencies have not finished writing the implementing rules. The requirements of the act will necessitate that Community Banks write new policy and procedures to comply with it. It will also entail updates and changes to our computer software and hardware. We will have to provide customers with new disclosures.

I would estimate that the financial burden FACT will place on County Bank this year will be between $150,000 and $200,000.

I have only covered a few areas of compliance in this letter. I feel compliance regulations are necessary to protect the public from abusive practices. Unfortunately the banking industry is having to carry the majority of the burden of consumer protection. We bankers are complying. Pick up the Sunday paper and look in the real estate section for home loans. Compare bank advertisements for real estate loans with advertisements of Mortgage Brokers or Real Estate agents. You will find that the bankers are complying with the marketing requirements of Regulation Z and many of the Mortgage Brokers are not. A recent article indicates that the majority of real estate loans are obtained from Mortgage Brokers. Who is protecting the consumer when they use a Mortgage Broker?

In my banking career I have worked for seven banks ranging from small community banks to large regional banks. All of these banks put the interest of the client ahead of profits. A good example of this is the right of recession. Every one of the banks I have worked for took the position that if a borrower wanted to cancel a loan and the three day waiting period passed, they would still allow the borrower to cancel the loan. They did not want to force a consumer into a loan they did not want.

If I can be of further assistance please feel free to call me at 209-725-7437.

Sincerely,

Henry Ferguson
Vice President Compliance/CRA Officer
County Bank
550 West Main Street
Merced, Ca. 95340