The Lyons State Bank
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April 8, 2008

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

RE: Docket No. R-1305

Dear Ms. Johnson:

I would like to comment on your proposal for changes to Regulation Z and HOEPA. I work for The Lyons State Bank, a family owned bank since 1937, located in central Kansas, in Rice County. Population of Rice County is approximately 3,700. Our total assets were $96 million as of 12-31-2007. We have 4 branches, 3 located in Rice county and one in McPherson county.

Rice County is agricultural based in crops and livestock production. Larger employers are the hospital, school districts, a salt plant and city/county work. Lyons is centrally located between several larger cities that offer various industrial job opportunities, and many people commute for employment.

Our total loans were $62 million as of 12-31-2007. 41% of our bank is agricultural based lending, 13% is commercial based lending, 10% is 1 to 4 family secured, 28% ag and commercial real estate, and the remainder is consumer. Our average loan size is $40,000.00 and the average pricing rate for these loans is 6.75% to 8%.

We are regulated by the State and FDIC. Usury rates are governed by Freddie Mac and UCCC in Kansas.

There are 3 banks located in Lyons, of which one is a Savings Bank which maintains the majority of large residential loans.

We offer home purchase loans, home equity lines of credit, debt consolidation, remodeling or other purpose loans secured by 1 – 4 family real estate. Our community has housing available at $20,000.00 cost and up. We offer Freddie Mac secondary market lending and in-house loans.

Our in-house loans are priced higher than the secondary market, but our bank does not charge any origination or processing fees. This product is appealing for our customers because we can amortize the term and payment schedule according to the customer's goals and cashflow. For example, if Joe Customer wants to pay his loan off in 8 years with $200.00 bi-weekly, we can accommodate his request. The customer can choose the payment date of the month, and payments may be made weekly, bi-weekly or monthly. We have the ability to easily accommodate refinances, extensions or restructures when there is an emergency or request for additional funds. We utilize future-advance mortgages which allows the customer the ability to refinance their loan and additional funds without extra title work costs or mortgage fees. The loan processing time is very quick and efficient. We do not escrow for taxes and insurance and our customers like this option.

My Concerns:

1) Possibly, the worst part about the proposed changes is that our loans will soon be designated as "higher priced mortgage loans". We currently do not fall under the "higher priced mortgage loan" definition, but a change to the 3 percentage points above the yield on comparable treasury notes will pull our loans under the "higher priced mortgage loan" definition. Our loans are margined off of Wall Street Journal Prime. Providing a disclosure to the applicant which discloses the loan is a "high priced mortgage loan" will be fatal to our real estate program. This could impact the reputation of our bank's real estate program.

2) If our real estate loan portfolio is brought under the umbrella of "higher priced mortgage loan" definition, this will create additional compliance burdens for our bank. We currently do not escrow for taxes and insurance. Our customers are aware of the necessity to keep their taxes and insurance current, and we have not had issues with nonpayment of either. Our loan department would need additional staff to handle the requirements of escrowing for our size of loan portfolio.

3) We would be required to provide additional disclosures, including the 226.32 model form H-16 to our customers. Real estate lending is so technical in nature and the consumer is overwhelmed by all the paperwork requirements associated with their loan request. The consumer receives between 20 and 30 different documents (includes application, pamphlets, disclosures, loan documents and information materials) when they apply for a real estate loan. Most applicants are not interested in the content or reasoning behind the disclosures.

4) Posting the payments the date of receipt is something I would need more clarification on. We currently disclose the hours for which deposits or loan payments will be received and processes to the customer's accounts. As a customer service we are open longer hours than processing time.

I would be interested in knowing what size of communities have been impacted by the subprime lending issues, in addition to what type of lenders are involved. I would be very surprised if regulated institutions in community banking were involved. Our foreclosure and default percentage has been practically null in the last 18 years I have worked in our bank. Nor to I see other banks in our community having foreclosure issues.

The Lyons State Bank has been a leader in serving our community. We work with our customers and know their needs. We do not create unusual loan products which create negative amortization, call for interest only payments for a teaser period, or set payments in small amounts to help a customer get into a house, knowing that the customer will get hammered later with larger payments later. Nor do we make a loan to someone to purchase a house when they cannot financially afford it. Our regulators are very good at monitoring our systems and products also. Please consider the impact of your proposal on the community banks and the burdens it will create. If you set the pricing as outlined in your proposal and require the escrowing, our bank may not feel it is not cost effective to offer real estate lending in the future, which would be a sad detriment for our customers and our community.

Thank you for your time,

Kim

Kim Miller
Vice President