



# State Bank OF SOUTHERN UTAH

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October 19, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Office of the Comptroller of the Currency  
250 E Street, S.W.  
Mail Stop 2-3  
Washington, D.C. 20219

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street N.W.  
Washington, D.C. 20429

RE: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals. This letter will be different, and much shorter than those that you have received thus far. I am not going to throw out statistics, ratios, and figures that you have already seen from bankers across the county. While I have the numbers and ability to share them with you, I feel the concept of this proposal and its possible affect is more important.

State Bank of Southern Utah is a unique bank you need to know about. We are 55 years old, and have served our communities in Southwest Utah very well. We have 13 locations, with some of our offices in towns as small as 500 people. We have provided traditional banking services, including mortgage loans in our area through many business cycles over the years.

What created the financial crisis of late had nothing to do with the way our bank, or traditional community banks have done business. I am sorry that there were people or institutions on Wall Street that were unethical or found ways to misrepresent the facts. But the real tragedy is that the regulatory fall out intended to be directed to those institutions is now being forced on community banks that have always stuck to traditional banking values.

I am not ignorant to the fact that some community banks have suffered and failed for various reasons, and our industry cannot be held completely without excuse. However, passing legislation similar to Basel III that could negatively affect the community banking industry so deeply simply does not make sense. More importantly, it could have the unintended misfortune of hurting consumers that desperately need community bank services.

For example, should there be requirements to hold capital for warranties on 1-4 family residential home loans which have been sold on the secondary market, our bank would have to seriously consider our ability to provide these loans. Even if existing portfolios are grandfathered. We have sold mortgage loans for many years without having to repurchase any of them. It seems the concept of only considering capital requirements commensurate to appropriate risk is more prudent. Not a broad brush approach.

On a related subject, changing the risk weighting for home equity and second lien loans could impact our ability to offer these consumer friendly loans, even when we continue to experience very little loss or problem with them.

I am in agreement that banks should be well capitalized. I also feel that an improvement over what has been in place must be supported by the banking industry. However, I cannot see how the Basel III capital proposals accomplish this goal.

In summary, the potential negative effects the Basel III capital proposals could have on a bank like State Bank of Southern Utah far outweigh the good it is intended to do. More importantly, it will create a problem for consumers in my rural area to obtain much needed banking services as we navigate our economy back into smoother waters. Trust me when I say that large banks cannot provide the banking services that many rural Americans need.

Please consider the negative effects this proposal may have on community banks. We want to be a solution to solving the economic problems of this county. Imposing these proposed changes would only be a hindrance to making this happen.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink that reads "Eric J. Schmutz". The signature is written in a cursive style with a large, stylized "E" and "S".

Eric J. Schmutz  
President & CEO