



November 20, 2002

Communications Division
Office of the Comptroller of the Currency
250 E Street, SW
Public Information Room
Mailstop 1-5
Attention: 1557-0081
Washington, DC 20219

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and C Streets, NW
Washington, DC 20551

Robert E Feldman
Executive Secretary
Attention: Comments/Legal Division
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

To Whom It May Concern:

I write regarding Call Report and TFR changes proposed regarding the reporting of sub-prime loans. I am concerned that these requirements will not only mandate an increased regulatory burden and expense on community banks, but will also impose demands and requirements which are contradicted by other federally mandated demands and requirements regarding Community Reinvestment Act regulations as well as nondiscrimination regulations.

We are a community bank with approximately \$350 million in assets. Although we now have branches throughout the city of Topeka, our main headquarters is and always has been in a low-income area of Topeka. In recent years we have expanded our headquarters facility, indicating our long-term commitment to this area of the community. We have a long history of making loans to small local businesses;



Kaw Valley

STATE BANK AND TRUST CO.

examiners have repeatedly commented on the fact that we have more loans per million dollars of loan volume than other banks. We feel that we have become very skilled in evaluating credit risk in our customers who sometimes have relatively little capital or other elements of prior business success. In our most recent exam this fall, our charge-offs were 0.6 % of loans and our classified loans 16% of capital. More generally, we feel we have demonstrated some ability and success in lending to the type of community that we serve.

The characteristics included in the proposal, one or more of which would indicate that a loan is sub-prime, might well include a number of our loan clients. At the same time, denying these loans on the basis of a wish to avoid making sub-prime loans might well run afoul of Community Reinvestment Act regulations or other anti-discrimination regulations. This poses an unrealistic burden on our loan officers. Not only must they evaluate the substance of the loan in terms of its potential risk, they must also steer a course between regulatory requirements that are potentially over inclusive and conflicting. They must attempt to read the minds of future regulatory examiners, not all of whom will be likely to have the same interpretation of these various requirements. The net effect of this will be to add to the cost and overall risk of making loans in our community, and will discourage our efforts in this area.

While I can sympathize with your efforts to deal with exploitative sub-prime lenders, and have no sympathy for such practices, it may satisfy your goals more effectively to find a method of dealing with these problems that does not penalize institutions with very different practices. So often in recent years we have found that regulations responding to abuses in a very small number of banks end up penalizing a large number of well-run and ethical financial institutions.

Sincerely,

Glenn Swogger Jr., M.D., Chairman

GS:jrt