

August 30, 2004

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: Regulation B, File No. S7-26-04 (69 Federal Register 39682; June 30, 2004)

Dear Mr. Katz:

This letter is in response to the SEC's requests for comments on proposed Regulation B. Our bank has \$64,000,000 in assets, with \$22,000,000 in trust assets.

Generally, we oppose the proposal because of the regulatory burden that it will place on community banks. With over two hundred pages of regulation, the proposal is extremely complex and will require banks to revise procedures, update software systems, and provide training to its employees. Community banks are already overwhelmed with regulation and do not have the resources to determine whether all of their trust, custodial and networking arrangements will neatly fit in to one of the complicated exemptions stated in the proposal. It is ironic that when the banking agencies are attempting under EGRPRA to find ways to relieve the regulatory burden of banks that the SEC has issued a proposal that will substantially increase that burden.

Moreover, several provisions of the rules will require community banks to significantly change or even discontinue certain traditional banking products and will make it much harder for banks to compete against other types of financial service firms, particularly brokerage firms. We do not believe it was the intention of Congress when it passed the Gramm-Leach-Bliley Act in 1999 that banks would have to discontinue some of its traditional banking activities in order to comply with the Act.

We also have specific concerns with the proposal. With regard to the networking exemption, we would urge the SEC to revise the definition of "nominal" by raising the \$25 dollar amount limit. For most employees, \$30, for instance, would be considered a "nominal" amount. We do not believe that raising the amount to that limit would lead bank employees to selling securities brokerage services directly to bank customers in lieu of making referrals. Furthermore, the inflation adjustment should be based on the \$25 (or higher) limit as of the date the regulations are published, not on \$15 based on 1999 dollars. In other words, 2004 should be the base year for the inflation adjuster, and not the year that the Gramm-Leach-Bliley Act was enacted.

We also think the definitions of "one-time" and "cash fee" are too inflexible. For instance, banks should have the flexibility to pay referral fees each year for the referral of the same customer or pay a bonus in addition to the payment of a referral fee. The SEC should refrain from regulating bank compensation programs.

As for the trust and fiduciary exception, the account-by-account test is simply too costly and time-consuming for community banks to comply with forcing many community banks to use the alternative "line of business" test which is also a very complicated. The "line of business"

test will require banks to compute "sales compensation" and "relationship compensation", two figures that will require extra computer programming time and expense to calculate on an annual basis. Sales compensation and relationship compensation should be tied to Call Report figures that the banks already have to compute. At a minimum, the line of business test should be simplified so that the ratio is based on sales compensation as compared to total trust department compensation.

Furthermore, the 1:9 ratio requirement for the line of business test should be raised to at least 1: 4 so that a bank can still comply with the test as long as its "sales compensation" does not exceed 25% of total trust department compensation. A 1:9 or 11% limit is too restrictive and would result in some banks having to discontinue some of their trust business to comply with the limit. Furthermore, if the goal of the regulations is to "push-out" possible brokerage activities from the trust department, a 25% limit certainly should be low enough to accomplish that goal.

We also think that 12b-1 fees should be excluded from the definition of "sales compensation" for purposes of the trust and fiduciary and the custodial exemptions. We do not agree that 12b-1 fees create conflicts between banks and investors or create special incentives to distribute investment company securities. Banks receive 12b-1 fees from mutual funds to compensate them for the work involved in providing fund information to the customer. Furthermore, it will be difficult and time-consuming for banks to allocate 12b-1 fees to individual accounts even under the more simplified approaches proposed by the SEC.

As for the custodial exception, while we are pleased that the SEC has raised the "small bank" custody exemption to \$500 million, we would urge the SEC to raise the \$100,000 annual sales compensation limit for custodial securities activities to \$300,000. The higher limit will provide more flexibility for those community banks that occasionally effect transactions in securities as an accommodation for their custodial customers.

Finally, we would recommend that the definition of a "no-load money market mutual fund" be revised to include money market mutual funds that charge up to 50 basis points. The 25 basis point requirement is too low and will force many banks to discontinue this popular sweep product. This prohibition will also put banks at a disadvantage with brokerage firms that offer cash management accounts since those firms will be able to receive fees from mutual funds in excess of 25 basis points for a product that, from a customer's perspective, looks identical to a checking account.

Above all, however, we hope that the SEC will simplify the proposal to make it less of a regulatory burden for community banks.

Sincerely,

Sheila Burcham, Chief Executive Officer