Community Reinvestment Act Joint Public Hearings, August 12, 2010
Panel Two: Christine Freund

Christine Freund:
Hello I'm Christine Freund, Vice President & CRA Officer at First Eagle Bank. First I'd like to thank you for the opportunity to speak at today's hearing, and then I'd like to take just a moment to provide you some background information about the bank.

First Eagle Bank has approximately 325 million in assets in two locations. We have one branch located in Hanover Park and the other is located in Chicago in the West Loop. The bank was originally chartered as a national bank and regulated by the OCC until 2007 when we flipped charters and became a state chartered bank that is now regulated by the Federal Reserve. When we under the regulation of the OCC, we were examined as a small bank until meeting the threshold to be examined as an intermediate small bank. The bank was first examined under this new category in 2007, and then most recently by the Federal Reserve in 2009. Therefore, speaking from the perspective of a community bank that has been examined as both a small bank and an intermediate small bank by both the OCC and the Federal Reserve, I'd like to comment on a few of the measurements utilized by agencies when evaluating CRA performance.

First, the addition of the intermediate small bank category that was introduced in 2005 eliminated the data collection and reporting burden, but it also created some challenges without an approach and analyzed the requirements for the new community development portion of the exam. There are many great areas at this portion of the exam which has somewhat been clarified over the years with the release of each interagency Q&A. Even with some clarification of what qualifies as community development, this portion of the exam remains the most challenging as there are no clear criteria. It is difficult to determine how much in investment's lending and services is required to receive a satisfactory rating or to achieve an outstanding rating. The current approach by the agencies is to valuate community development from both a quantitative and a qualitative approach. After being examined by both the OCC and the Federal Reserve, I feel that there could be more emphasis put on the qualitative approach. There are many instances where the amount of the investment or the loan may not be very large, but it has a significant impact on an organization or the community. The same applies for some of the services an institution may provide or its support participation with various community groups.

Also, for an intermediate small bank a small business loan that qualifies as a community development loan, should also be considered for analysis under the lending test. Currently these loans are excluded from the lending test if the institution elects to have it considered under the community development test. The lending test and the community development test are two different tests for an intermediate small bank. Therefore, these loans should be considered under both similar to the analysis of a multi-family dwelling loan. Under the lending test I'd like to stress the importance of the agencies to continue to place greater emphasis on a bank's primary lending focus, especially considering the decline of mortgage lending made by both small and large institutions. When CRA was first enacted the majority of mortgages were made by regulated institutions, whereas over the years the majority is now made by non-regulated institutions, shifting the bank's focus to other types of lending.

I'd also like to touch on the advancements in technology and its relation to the geographic cover aspect under CRA and servicing the customer. For most small and many intermediate small banks, the current geographic model is still appropriate given that most are branch-based and are slowly and cautiously adopting new technology to service its customer base. This may not be the case for larger institutions that have adopted and embraced new technology at a much more rapid pace. The agencies will need to consider what approach would work best to take this into consideration if banks are using technology to effectively service its customers including the low and moderate income consumer.

There are also various thresholds that are utilized to determine which exam applies to an institution in the various tests. The averaged-sized thresholds that apply to an institution seem appropriate and are adjusted annually. The thresholds that the agencies may consider adjusting at some point would be those used for small business lending. Both the dollar amount of the loan and the revenue of the business have a current threshold of a million which have not been adjusted. And lastly, I would like the agencies to consider additional incentives for banks to achieve an outstanding rating. One example may be longer periods of time between exams.

Again, I'd like to thank you for this opportunity.