Northrim Bank
Customer First Service

April 2,2004

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-1181

Dear Ms. Johnson

Subject: Proposed Revisions to the Community Reinvestment Act Regulations

I am writing to you to communicate my support for the federal bank regulatory agencies' (agencies) proposal to expand the number of banks and saving associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The agencies are proposing to increase the asset threshold from $250 million to $500 million and to eliminate any consideration of whether the small institution is owned by a holding company. This proposal reflects a more appropriate implementation of the Community Reinvestment Act and is clearly a major step toward reducing the regulatory burden on those institutions who would be made eligible for the small institution examination, and I strongly support this proposal.

When the CRA regulations were rewritten in 1995, the banking industry recommended that community banks of at least $500 million be eligible for a less burdensome small institution examination, The most significant improvement in the new regulations was the addition of the small institution CRA examination, which actually did what the act required

- It had examiners look at each bank's loans and assess whether the bank was helping to meet the credit needs of the bank"s entire community.
- It did not impose an investment requirement on small banks, since the act is about credit, not investment.
- It added no data reporting requirements on small banks, fulfilling the promise! of the act's sponsor, Senator Proxmire, that there would be no additional paperwork or recordkeeping burden on banks if the act passed.
- And it created a simple, understandable assessment test of the bank's record of providing credit in its community: the test considers the institution's loan-to-deposit ratio; the percentage of loans in its assessment areas; its record of lending to borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of its loans; and its record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment areas.

Since then, the regulatory burden on small banks has been increasing. Examples include recent, massive new requirements under HMDA, the USA Patriot Act, the privacy and information security provisions of the Gramm-Leach-Bliley Act, and recent amendments to the Fair Credit Reporting Act. But the nature of community banks has not changed. When a community bank must comply with the requirements of the large institution CRA data reporting and CRA examination, the costs to and burdens on that community bank increase dramatically,

The transition from a small bank to a large bank for purposes of CRA imposed a very large additional burden to my bank here in Alaska. Due to the loan data collection and reporting requirements, the requirements to document investments and services, and the time required for CRA exam preparation, the CRA Officer position increased from 25% to 100% of a full-time employee's job, In addition, the Chief Financial Officer has spent countless hours working on the details of complex community development investments to try to meet the unspecified and arbitrary "qualified investment" threshold. As a large bank, we have experienced CRA examiners arbitrarily assigning lower levels of qualified value to the community development donations and investments on which the bank has spent numerous hours and financial resources. This imposes a dramatically higher regulatory burden that drains both money and personnel away from our staff being able to help meet the credit needs of our communities.

I believe that it is as true today as it was in 1995, and in 1977 when Congress originally enacted CRA, that a community bank's role is to meet the credit needs of its community by making a certain mount of loans relative to its deposits. A community bank's operations are typically not complex; it's basically taking in deposits and making loans. Its business activities are usually focused on small, defined geographic areas where the bank is known in the community. The small institution examination accurately captures the information necessary for examiners to assess whether a community bank is helping to meet the credit needs of its community, and I believe that nothing more should be required to satisfy the act.

As the agencies state in their proposal, raising the small institution CRA examination threshold to $500 million would make a larger number of community banks eligible for the small bank status, However in reality, raising the asset threshold to $500 million while also eliminating the holding company limitation would mean that the percentage of industry assets that would be subject to the large retail institution test would only decline: slightly—from a little more than 90% to a little less than 90%. That decline, though slight, would more closely align the current distribution of assets between small and large banks with the distribution that was anticipated when the agencies adopted the definition of "small institution." Thus, the agencies, in revising the CRA regulation, are really just preserving the *original intent* of the regulation, which has been altered by a significant decline in the total number of U.S. banks, inflation, and an enormous increaee in the size of large banks. I believe that the agencies need to provide greater relief to community banks than just preserving the *status quo* of this regulation.

While: the small institution test was the most significant improvement of the revised CRA, it was not appropriate to limit its application only to banks with less than $250 million in assets, because it deprived many community banks from any regulatory relief. Currently, a bank with more than $250 million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits as contemplated by the Community Reinvestment Act. In today's banking market, even a $500 million bank often has only a handful of branches,

Therefore, I recommend raising the asset threshold for the small institution examination to at least $1 billion. Raising the limit to $1 billion is appropriate for two reasons. First, keeping the focus of smaller institutions on lending, which the small institution examination does, would be! entirely consistent with the original purpose of the Community Reinvestment Act (which was to ensure that the agencies evaluate how banks are helping to meet the credit needs of the communities they serve),

Second, raising the limit to $1 billion will have only a small effect on the mount of total industry assets covered under the more comprehensive large bank test. According to the agencies' awn findings, raising the limit from 8250 to $500 million would reduce total industry assets covered by the large bank test by less than one percent. According to December 31,2003, Call Report data, raising the limit to $1 billion will reduoe the amount of assets subject to the much more burdensome large institution test by only 4% (to about 85%). Yet, the additional relief provided would, again, be substantial, reducing the compliance burden on more than 500 additional banks and savings associations (compared to a $500 million limit). I urge the: agencies to raise the limit to $1 billion, providing significant regulatory relief while, to quote the agencies in the proposal, not diminishing "in any way the obligation of all insured depository institutions subject to CRA to help meet the credit needs of their communities. Instead, the changes are meant only to address the regulatory burden associated with evaluating institutions under CRA."

In conclusion, I strongly support iucreasing the asset-size of banks eligible for the small bank streamlined CRA examination process as a vitally important step in improving the CRA regulations and in reducing regulatory burden on our nation's smaller banks. I also support eliminating the separate holding company qualification for the small institution examination, since it places small community banks that are part of a larger holding company at a disadvantage to their peers and has no legal basis in the act. Community banks will still will be examined under CRA for their record of helping to meet the credit needs of their communities; however, this change will eliminate some of the most problematic and burdensome elements of the current CRA regulation faced by community banks now drowning in regulatory red-tape.

Sincerely,

R. Marc Langland
Chairman, President , and CEO
Northrim Bank