From: Christine Freund, Vice President & CRA Officer
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Re: CRA Regulation Hearings
Docket No. R-1386

Speaking from the perspective of a community bank, which has been examined as a small bank and an intermediate small bank, by both the OCC and more recently the Federal Reserve, I'd like to comment on a few of the measurements utilized by the agencies in 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 with how to approach and analyze the requirements for the new community development portion of the exam. There are many "gray" areas for this portion of the exam which have 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 investments, lending and services is required to receive a satisfactory rating or to achieve an outstanding rating. The current approach by the agencies is to evaluate community development from both a quantitative and 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 portion. There are many instances where the amount of an investment or loan may not be very large but it has a significant impact for an organization or the community. The same applies for some of the services an institution may provide or its 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 multifamily dwelling loan.

Under the lending test I'd like to stress the importance of the agencies to continue to place greater emphasis on a banks 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 where as over the years the majority is now made by non-regulated institutions shifting the banks focus to other types of lending.

I'd also like to touch on the advancements in technology and it's relation to the geographic coverage 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 and 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 and the various tests. The asset size thresholds that apply to an institution seem appropriate and are adjusted annually. The threshold 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 $1 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 a longer period of time between exams.