

From: Silvergate Bank, Silvergate Bank, Andrew Litchy

Proposal:

Subject: R-1723 Community Reinvestment Act

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Madam or Sir,

Silvergate Bank applauds the efforts of the Board of Governors of the Federal Reserve System (Board) to modernize the Community Reinvestment Act (CRA) regulatory and supervisory framework.

Silvergate is committed to the goals of CRA and in meeting the credit and financial services needs of our customers and communities, and believes the leadership shown in soliciting feedback is beneficial to all stakeholders.

In general, Silvergate believes the Board captures important CRA modernization objectives. More specific feedback follows below.

Strategic Plans

As a leading provider of innovative financial infrastructure solutions and services for the digital currency industry, Silvergate is a non-traditional bank. As such, it has availed itself to the strategic plan option since 2013. During that time, Silvergate has had the opportunity to collaborate with Board staff on three consecutive strategic plans.

Silvergate appreciates the flexibility afforded by adopting, and being evaluated under, a strategic plan and supports allowing banks greater flexibility in defining assessment areas through a strategic plan. One reason that may prompt a bank to choose the strategic plan option is when it has significant business beyond its branch-based assessment area; therefore, it is consistent with the flexibility of a strategic plan to allow a bank to delineate assessment area(s) that would capture those business areas and align with a bank's capacity, constraints, product offerings, and business strategy.

Silvergate believes banks that have already negotiated strategic plans should not be disadvantaged by any additional flexibility afforded in the proposed rules. For this reason, Silvergate urges allowing such a bank a streamlined opportunity for strategic plan changes, at its election, in response to finalized rules.

Assessment Areas

Silvergate believes that tying assessment areas to branches is outdated. Physical branches are one means by which banks generate deposits, but today's modern world of technology has provided flexibility beyond geographic location barriers and in-person deposit taking. It seems reasonable to allow deposit- and lending-based assessment areas.

Qualifying CRA Activities

Silvergate believes a mechanism for allowing a formal submission of potential qualifying activity for advance review and a codified list of activities that will be considered community development is extremely beneficial. Performance evaluation cycles can extend multiple years which leaves too long of a time for uncertainty regarding activities that count for CRA credit. Surprises or disagreements that may arise during a performance evaluation take place at a time that leaves little to no opportunity for a bank to remediate or improve performance. Further challenges may arise when an activity qualifies for CRA credit during one performance evaluation but not the next.

For the reasons outlined above, Silvergate supports a process whereby banks can request confirmation of specific community development eligibility in advance and refer to an illustrative list of

CRA eligible activities for greater clarity.
Small Business Dollar Threshold

Silvergate bank is based in San Diego, CA. Southern California is a high-cost area which results in the current \$1 million loan cap excluding many loans to small businesses. Silvergate supports increasing the small business lending dollar size threshold.

Volunteer Activities

Banks employ staff members with a broad range of talents, skills, and abilities who can and do provide worthwhile services to the community beyond those related to the provision of financial services. Silvergate believes the positive impact that these services could have on low- or moderate-income persons is not inconsistent with the spirit of CRA and warrants expanding consideration.

Community Development Loans and Qualified Investments Evaluation

Silvergate's current strategic plan utilizes average assets in its calculation of measuring CRA-qualified goals and performance. Silvergate believes that using a ratio of dollars of community development activities to average assets or deposits are acceptable measures of a bank's level of community development activity relative to its capacity to lend and invest. Using a deposit denominator based on assessment area would also measure a bank's capacity to lend and invest within that assessment area.

Silvergate also believes that that the treatment of prior period qualified loans should be consistent with the treatment of qualifying investments made during a prior review period in that qualifying loans held on balance sheet and from a prior period should continue to receive CRA consideration while tying up capital.

Silvergate always does its utmost to achieve satisfactory results as it pertains to CRA activities that best serve our communities; however, it believes it would benefit from the modernization and clarity proposed for strategic plans, assessment areas, qualifying CRA activities, small business dollar thresholds, volunteer activities, and community development loans and qualified investments evaluation, as discussed above.

Thank you,
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