



California Bankers Association
Established 1891

4

November 30, 2001

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW,
Washington, DC 20552

Attention: Docket No. 2001-67

Dear Sir/Madam:

The California Bankers Association (CBA) is a trade association established in 1891, and represents most of the banks and savings institutions in California (hereafter, simply "banks"). Recently, the CBA and the Western League of Savings Institutions entered into a merger. This is the first opportunity the CBA has had since the merger to comment on a matter of significance to the thrift industry of California and we appreciate the opportunity to do so.

The CBA supports the changes proposed by the OTS to its Lending and Investment Regulations (12 CFR 559 and 560). The CBA strongly supports both charter choice and charter enhancement. We therefore wholeheartedly favor the OTS proposal to liberalize the business and agricultural lending activities of those institutions it charters and regulates.

Many of our thrift members have expressed concern about the increasing difficulty they are encountering trying to fit within the limits of their commercial lending authority. Typically, these are community-oriented thrifts that have sought new ways of meeting credit demands in the communities they serve. As the preamble to the OTS proposal observes, over time, savings associations have encountered significant changes in the economy, their competition, and the markets they serve. Of all these changes, none has been more profound than those that have taken place in the residential mortgage market.

It is our understanding that the government- backed mortgage agencies today finance, or facilitate the financing of, over 60% of the residential mortgage market. Savings associations have adapted to these changes, and many have prudently expanded their commercial lending activities. Thus, the OTS proposal is welcomed, and it is responsive to one of the most important needs these associations have today -- the ability to fit their commercial investments into the allowable baskets.

Accordingly, the CBA strongly endorses the OTS' proposal to increase the small business loan threshold to \$2 million. We would suggest even further liberalization. As we read the proposal, it would leave in place the additional requirement that the loan meet the small business definition, one of the requirements of which is that the loan be made to a business. We believe

OTS


November 30, 2001

page 2

the definition should focus on the purpose for which the loan proceeds are used, rather than the entity that borrows the money. Our suggestion is that the regulations clearly provide that any loan under \$2 million, the proceeds of which are used primarily for a commercial purpose, should qualify as a small business loan under the Loan and Investment Regulations. Presently, the regulations require that the loan actually be made to a business borrower. We believe that, while the type of legal entity that a borrower chooses to operate under may be a factor in the credit review process, this inquiry should have no bearing on whether the loan itself should be classified as a small business loan for lending limit purposes.

CBA appreciates the opportunity to provide this comment letter. CBA favors as much flexibility as OTS can provide, and we believe the statute would accommodate the additional minor liberalization that we suggest. Please do not hesitate to call the undersigned if you have any questions.

Sincerely,


for Lou Nevins