

Franklin Savings

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April 5, 2004

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

Attention: No. 2004-04

Re: Proposed Amendments to the Community Reinvestment Act Regulations

I am writing to you at this time to support the regulations proposed to update the Community Reinvestment Act. In particular, I support your proposal to expand the number of financial institutions that will be examined under the streamlined small institution examination provisions of CRA. Your proposal achieves this result by increasing the asset threshold of banks that would qualify as community institutions from \$250 million to \$500 million and disregarding ownership by a bank holding company. While I strongly support your proposal in its current form, I would urge you to consider extending the benefits of your amendments by raising the asset threshold even further to \$1 billion.

Franklin Savings and Loan Company is a traditional thrift institution of approximately \$270 million in assets. We have been evaluated under the "large institution" criteria for CRA purposes for the last two years.

The small bank examination process is a simple, straight forward analysis evaluating five criteria:

- ▶ An institution's loan to deposit ratio
- ▶ The percentage of total loans in its assessment area
- ▶ Its record of lending to individuals of different income levels (and businesses and farms of different sizes)
- ▶ The geographic distribution of its loans
- ▶ Its record of taking action in response to written complaints about its performance in helping to meet the credit needs in its assessment area

The streamlined examination program was added to the CRA regulations in 1995 for a number of very good policy reasons that were valid then and remain valid today. First, many of the traditional CRA tests like the investment test or the service test are not relevant for

community banks. The business of community banking revolves around making loans in their communities. Second, the regulatory burdens fall disproportionately on small banks that don't have the staff, software or the expertise to comply with the more complex CRA tests and data coding requirements. Finally, and perhaps more importantly, a true community bank will not survive if it is not responsive to the borrowing needs of its entire community.

Since the Community Reinvestment regulations were last updated the regulatory burdens on small banks have grown much larger, including new reporting requirements under HMDA, the USA Patriot Act and the new privacy requirements under Title V of Gramm-Leach-Bliley. The nature of community banking has however not changed. Community banks have less staff and fewer resources to comply with this ever increasing compliance burden. *Your proposal is an opportunity to help stem this ever-increasing tide of regulatory costs, and ensure that community banks can survive, so they will be around to help serve the needs of their communities.* The streamlined exam for smaller institutions accurately captures the information necessary for examiners to assess whether a community bank is meeting the credit needs of its community. Nothing more is required to satisfy the requirements of the CRA.

There are many valid reasons for raising the threshold and expanding the application of the streamlined CRA test. Most importantly, inflation and consolidation have reduced the number of institutions covered by the streamlined exam over the last six years. The rationale for the alternate examination procedures, lack of resources, apply equally well to community institutions over \$250 million as well those under that threshold. Increasing the amount of assets to \$500 million however will merely restore the banking assets covered by the streamlined program to what it was at its inception in 1997. I would urge you to go beyond maintaining the status quo by expanding the exemption to include community banks with assets up to \$1 billion.

There are many good policy reasons for raising this threshold even further than initially proposed. First of all, raising the threshold in this fashion will still leave the vast majority of the assets in the banking system under the more complex CRA analysis. Nationally, increasing the threshold to \$1 billion will add only 524 financial institutions to the small bank exam program. The proposal as published in the Federal Register will exempt 9% of banking assets, and the more expansive exemption we suggest would only expand that to 11% of banking assets. Second, increasing the threshold will keep the focus of community banks on local lending. This is consistent with the requirements of the CRA.

Exempting those additional institutions will turn loose additional lending resources, particularly in smaller communities. In America's smaller towns the only economic engine to invest in new jobs and new growth is the local financial institution.

In conclusion, I strongly support your proposal to increase the asset threshold for banks to be eligible for the streamlined CRA exam. For the policy reasons stated, I also encourage you to

consider extending that exemption to include larger community banks. Updating the CRA regulations will still allow the regulators to fulfill their responsibility under CRA to ensure that all banks are helping to meet the credit needs of their community. This action however will remove some of the burdensome red tape that is costly, and does not help community banks meet their responsibilities under the act.

Sincerely,



Thomas H. Siemers
President/CEO

THS:sa