HINSBROOK BANK & TRUST

March 17, 2004

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Public Information Room, Mailstop 1-5
Office of the Comptroller of the Currency
250 E. St. SW,
Washington, 20219

Docket No. R-1181
Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St NW
Washington DC 20429

Regulation Comments, Attention: No. 2004-04
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington DC 20552

Re: **Proposed Revisions to the Community Reinvestment Act Regulations**

Dear Officials of Federal Bank and Thrift Agencies:

I am writing to support the federal bank regulatory agencies' (Agencies) proposal to enlarge the number of banks and saving associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose 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 is clearly a major step towards an appropriate implementation of the Community Reinvestment Act and should greatly reduce regulatory burden on those institutions newly made eligible for the small institution examination, and I strongly support both of them.

When the CRA regu ations were rewritten in 1995, the banking industry recommended that community banl s of at least $500 million be eligible for a less burdensome small institution examinati n. The most significant improvement in the new regulations was the addition of that s nall institution CRA examination, which actually did what the Act required: had examiners, during their examination of the bank, look at the bank's loans and assess whether the bank was helping to meet the credit needs of the bank's entire community. It impos ed no 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 record eeping burden on banks if the act passed. And it created a simple, understandable asses ment 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 only grown larger, including massive new reporting requirements under HMDA, the USA Patriot Act and the privacy provisions of the Gramm-Leach Bliley Act. But the nature of community banks has not changed. When a community bank must comply with the requirements of the large institution CRA examination, the costs to and burdens on that community bank increase dramatically. In looking at my bank, converting to the large institution examination requires, among other things, that we devote substantial additional staff time to documenting services and investments, for all of our loans that might have CRA value. This imposes a dramatically higher regulatory burden that drains both money and personnel away from helping to meet the credit needs of the institution's community.

I believe that it is as true today as it was in 1995, and in 1997 when Congress enacted CRA, that a community bank meets the credit needs of its community of it makes a certain amount of loans relative to deposits taken. A community bank is typically non-complex; it takes deposits and makes 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 nothing more is required to satisfy the Act.

As the Agencies state in their proposal, raising the small institution CRA examination threshold to $500 makes numerically more community banks eligible. However, in reality raising the asset threshold to $500 million and eliminating the holding company limitation would retain the percentage of industry assets subject to the large retail institution test. It would decline only 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 *status quo* of the regulation,

which has been alte ed by a drastic decline in the number of banks, inflation and an enormous increase in the size of large banks. I believe that the Agencies need to provide greater relief to com munity banks than just preserve the *status quo* of the regulation, which has been alte ed by a drastic decline in the number of banks, inflation and an enormous increase in the size of large banks. I believe that the Agencies need to provide greater relief to comr unity banks than just preserve the *status quo* of this regulation.

While the small ins itution test was the most significant improvement of the revised CRA, it was wrong o limit its application to only banks below $250 million in assets, depriving many com munity banks from any regulatory relief. Currently, a bank with more than $250 mill on 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 of en has only a handful of branches - in our case four branches within the same extended market area. I recommend raising the asset threshold for the small institution examinati on to at least $1 billion. Raising the limit to $1 billion is appropriate for two reasons. Firs t, keeping the focus of small institutions on lending, which the small institution examinat on does, would be entirely consistent with the purpose of the Community Reinves ment Act, which is to ensure that the Agencies evaluate how banks help to meet the cre dit needs of the communities they serve. To expect my $400 million community bank to l ave the same technical and personnel capabilities to meet the same CRA standards as a Bank One does both our bank and our community a horrendous disservice.

Second, raising the l mit to $1 billion will have only a small effect on the amount of total industry assets cover ed under the more comprehensive large bank test. According to the Agencies' own findings, raising the limit from $250 to $500 million would reduce total industry assets cove ed by the large bank test by less than one percent. According to December 31, 200?, Call report data, raising the limit to $1 billion will reduce the amount of assets subject to t e much more burdensome large institution test by only 4% (to about 85%). Yet, the ad ditional relief provided would again, be substantial, reducing the compliance burden o n more than 500 additional banks and saving associations (compared to a $500 million lin it.) Accordingly, I urge the Agencies to raise the limit to at least $1 billion, providing s gnificant regulatory relief while, to quote the Agencies in the proposal not diminis ning "in any way the obligation of all insured depository institutions subject to CRA to h lp meet the credit needs of their communities. Instead, the changes are meant only to a dress the regulatory burden associated with evaluating institutions under CRA."

In conclusion, I stro gly support increasing the asset-size of banks eligible for the small bank streamlined C RA examination process as a vitally important step in revising and improving the CR regulations and in reducing regulatory burden. I also support eliminating the se arate holding company qualification for the small institution examination, since t places small community banks that are part of a larger holding company at a disadv antage to their peers and has no legal basis in the Act.

While community banks, of course, still will be examined under CRA for their record of helping to meet the credit needs of their communities, this change will eliminate some of the most problematic and burdensome elements of the current CRA regulation from community banks that are drowning in regulatory red-tape.

Sincerely,

L. Thomas McNamara
President & CEO