April 6, 2004

Information Collection Comments

Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
Attention: 2004-04

Via Email To: regs.comments@ots.treas.gov

Dear Sirs:

Home Federal Bank is taking this opportunity to express its views on the proposed revisions to the *Community Reinvestment Act* regulation. In understanding the context of our comments, you should know that Home Federal Bank is an $800 million thrift institution, with 35 branch offices, located in a rural area of the upper Midwest. Even though Home Federal is considered a "large bank" under the Community Reinvestment Act, our organization is and always has been a community-oriented financial institution. Our mission for 75 years has been to be the leading financial services provider to businesses and individuals in the communities we serve.

Home Federal would specifically like to offer comment on two proposals: considering violations of other laws when assigning a CRA rating; and modifying/enhancing the contents of public evaluation. We would also like to provide additional comments on other non-specific, changes that the agencies suggest they make in the form of interpretations, guidelines, and examiner training.

Predatory Lending

Home Federal disagrees with the notion that CRA should be broadened to include a determination of predatory lending practices and sub-prime lending practices. We believe the original intent of CRA was to assure fair access to credit in communities where deposits were gathered. We further believe that there is a significant distinction between predatory lending and sub-prime lending. Predatory lending is a pricing strategy and sub-prime lending is a credit underwriting evaluation. We do not engage in predatory lending as a business practice. We do occasionally make loans that are classified as sub-prime loans to citizens of our community who we believe to be worthy of the credit risk. If we are subjected to significant threats under the CRA law or the interpretation of the CRA law that would impair our overall operation, we would cease making any sub-prime loans. We believe this would be counterintuitive to CRA and would deny credit to citizens of the communities we serve unfairly and unnecessarily. In our experience, the subjectivity applied between different regulatory agencies, different regions within the same regulatory agency, and even between examiners of the same regulatory agency make this interpretation a high risk to individual institutions and to individual communities.

Enhanced Data Disclosure

Home Federal does not agree with the agencies that the benefits of public disclosure of the number and amount of an institution's small business and small farm loans by census tract outweighs the risk of unwarranted disclosure of other private information. In large rural banks, such as Home Federal, the risk of disclosure of private information is much higher than with urban large banks. In any given reporting year, Home Federal could have a number of census tracts where only one, two or three small business or small farm loans have been originated. Segmenting this information as suggested has significant potential of disclosing private information for these customers and completely contradicts the protections of privacy and safeguarding regulations. We believe that the current aggregate reporting of small business and small farm loans gives the public an overall view of the institution's performance and if more meaningful information is needed we suggest the agencies enhance the aggregate data with examiner narrative rather than raw data.

Additional Comments

We, at Home Federal, do not understand how the agencies would improve the "transparency " in CRA evaluations by distinguishing loan purchases from loan originations in a public evaluation. If the regulation weighs loan purchases and loan originations equally and the agencies specifically comment that the agencies would not weigh loan purchases less than loan originations, then why is there a need to distinguish them in the public evaluation? Home Federal believes that by distinguishing loan purchases and loan originations, the agencies are telling the examiners that there is a difference. And while the agencies are saying that a purchase is not weighed differently than an origination, distinguishing them will allow examiners and community groups to view them as different and make subjective opinions based on that information.

Home Federal believes that detailed guidance for examiners is needed in determining a community bank's performance under the Investment Test. In our experience, this test is more subjective than either of the other tests and guidance will give consistency. The broad subjectivity applied to the Investment Test does not show understanding of the difference between rural community needs and larger urban community needs. The solutions required to resolve the needs of rural communities do not necessarily demand complexity or great innovation. The rural communities we serve are experiencing decline in population driven by the consolidation of farming and ranching operations. Without economic development present to create the value-added cycle to the agricultural commodity, the rural community is dependent on the primary agriculture jobs, which are declining with mechanization, automation and consolidation. The first step in solving these problems is to invest in economic development to create value-added businesses, which will create new jobs, which will create new income, which will create capacity for new housing and revitalization of our rural communities. In our experience, the Investment Test is more focused on housing development and innovation. Examiners need to understand that a rural community bank, through its business plan, complies with the spirit and intent of CRA by lending and meeting the <u>credit needs</u> of our communities. If we meet or exceed the lending test guidelines, then investments should be viewed as a complementary add-on and not as an additional requirement to the CRA evaluation.

Some of the things Home Federal believes should be addressed in the interagency guidance include:

1. The investment performance rating should be relative to a bank's lending performance. Examiners need guidance on how much is enough when a financial institution has already demonstrated their commitment to CRA. A rural community bank that is meeting the credit needs of the community through lending programs should not be penalized because their level of investments does not compare with an urban bank.
2. The terms of "innovative and complex" should directly correlate with responsiveness. Rural community banks are committed to our communities and solving their needs. Being responsive does not always have to be complex.
3. Credit should be given to all qualified investments not just the ones originated during the reporting period. A community bank's commitment to an investment does not end the day the investment is purchased, the grant is originated, or the low interest loan was originated. When institutions participate in qualified investments, they make a commitment that results in a non-earning or low-earning asset and this business decision remains for the duration.
4. Examiners need guidance to ensure that they understand that all banks do not have "community development capital". Rural community banks have capital. This capital is a direct result of safe and sound banking which serves the credit needs of our community and reflects our commitment to these communities.

Thank you for your consideration of our comments. If you have any questions, please do not hesitate to contact me at (605) 333-7556.

Sincerely,

Sincerely,

Curtis L. Hage
Chairman and President
Home Federal Bank
225 South Main Avenue
Sioux Falls, South Dakota 57104