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Date: 10/16/01
From: Mark Wunch, an interested citizen.
To: OTS Docket 2001-49
Subject: CRA Evaluation ideas

Many CRA ideas are listed below (some may even contradict each other).

- **Loan-to-Deposit Ratio** - Eliminate the Loan-to-Deposit ratio sub-rating for small institutions. This ratio is easily influenced by business decisions, such as loan sales, purchases, borrowings from the FHLB, and more often than not, does not reflect lending patterns within the assessment area or during the evaluation period. It is a stretch to compare ratios with other institutions when we do not know the business strategies of these institutions. To try to research these decisions by checking TFRs or call reports or CRA Evaluations is very time consuming and may produce no relevant information. The evaluation ends up explaining why the ratios differ. Why even put the ratios in when an explanation is needed as to why the ratios differ? As an option and if appropriate, the ratio could be discussed under the Lending Within the Assessment Area section.
- **Investment Test** - Eliminate the Investment Test for large institutions. Investments can be discussed under the Lending Test. Many institutions whose performance is outstanding in lending are prevented from obtaining an overall "Outstanding" rating because of a less than "Outstanding" rating in Investment or in the Service Test. If an institution wants to devote its resource in making loans instead of investments, it should not be penalized. If lending opportunities are lacking and the institution wants to make investments, it should be recognized, but if lending opportunities are there (and the loans help LMI areas and people) the institution most likely is fulfilling its CRA primary obligation. A case in point, the leading lender within LMI geographies and to LMI borrowers may not get an "Outstanding" CRA rating because, it has a "Low Satisfactory" in Investments and/or Service. It does not seem fair.
- **Qualified Investments** – Any investment is really a loan to the entity that issued the security or investment vehicle; thus, qualified investments should be a sub-category of the Lending Test. A leading lender in the NYC metropolitan area among LMI people and within LMI geographies may not qualify for an "Outstanding" rating if it gets a Low-Satisfactory in Investments
- **Small Institutions Evaluation Material** - For evaluation of small institutions that have 4 or 5-year cycles, use annual HMDA-reports that were prepared during the review period, eliminate partial periods. This will cover the bulk of the review period. Of course, if an institution does something extraordinary in the odd period, and this will make a difference in the ratings, then it should be included in the evaluations, but this should be the exception.
- **CRA for Small Institutions** – The HMDA asset size threshold should apply, institutions below the threshold should not be subject to CRA.
- **CRA Threshold for small institutions** – The threshold should be $500 million or a $1 billion. $250 million in assets is not very much and these institutions have

enough problems running their business. Regulatory burden impedes their efficiency in running a businesses.

- **Community Development Loans** – Loans to voluntary fire departments, ambulance squads, community libraries, and such, should be included as community development regardless of the income classification of the geography. These loans definitely enhance the quality of life in the community.
- **Community Development Loans** – Loans to non-profit community organizations that enhance the quality of life of the disadvantaged such as the handicapped, the homeless, the mentally ill, and such, should be classified community development loan. These loans are now reported under small business loans. Maybe they should be double-counted, just like multi-family loans that aid LMI residents are.
- **Qualified Investments** – Bonds for road construction, schools, etc, that benefit cities or towns that are predominantly LMI should be fully qualified. I can't believe that a bond for road construction in Camden, NJ, the most economically depressed city in the state does not qualify since the bond is not targeted to LMI areas, and even Camden has upper-income geographies.
- **Qualified Investments** – It appears that considerable weight is given to innovative and/or complex investments. This must be clarified. What may be complex and innovative for a small institution may be routine for a large institution. Also, a small institution can purchase a complex or innovative investment that was created by any investor. The economies-of- scale puts at disadvantage most institutions that can easily just purchase a "complex" investment. Should a relatively-small institution not get the credit it deserves just because it did not spend hours and hours in trying to create an investment instrument when such instrument can be easily be bought in the market? Complex and innovative is a passing term that may be outdated as soon as I finish typing this comment. Total dollars should be the key. If an institution is the leader in creating an SBIC instrument, of course, it would be recognized and that is common sense, but don't confuse the issue. The commentary tends to imply that if the investments are not innovative or complex, than it is difficult to get an "Outstanding" rating.
- **Purchased Loans** – Purchased LMI loans should not be given the amount of CRA credit as loan originations. Some institutions can purchase loans at the last minute in order to enhance their CRA ratings. In the same vein, an institution purchases loans and gets credit under the Lending Test, but if the same institution purchases the same loans under a targeted MBS, the credit will go to the Investment Test.
- **Present CRA concept may be outdated** – As internet information becomes more available to the general public, borrowers shop around for loans and deposits. Maybe a general analysis of loans to LMI borrowers and LMI geographies should be made, as well as loans to businesses. But if the loans and deposits are from across the country how is the CRA going to be addressed? Maybe the lenders can demonstrate how they are addressing the needs of LMI people or geographies, anywhere. Something like the Mount Laurel concept in New Jersey, which allows housing for LMI areas to be exported to other areas of the state.

- **Peer and Aggregate HMDA-lenders comparison** – Peer and aggregate lenders comparison should be used with caution. In very few instances there is a perfect match when comparing lending ratios with peers. Lending strategies could be different, assessment areas may be different, emphasis on some products may be different, interest-rate risks may be different. If comparison of an institution's lending ratios, say in LMI areas or to LMI ratios, is made to the aggregate HMDA-lenders, additional considerations should be taken. For instance, about 27% of the lenders are not regulated by Federal agencies and many of these lenders standards and practices may not be as ethical as those of regulated financial institutions. Do mortgage companies have to worry about interest-rate risk? Do they have to worry about a Federal Compliance Examinations or even State regulations? How effective are states in regulating mortgage companies?
- **CRA Original Concept** – I thought that the main reason CRA was enacted by Congress was to make institutions accountable for trying to address the credit needs of the community. Where does the Investment and Service Test come from? Maybe it is about time that congress pass a new Act, which will address the effect of Internet among borrowers and depositors.

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