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September 21, 2001

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

ATTN: Docket No. 2001-49

Enclosed please find our comments regarding the recently proposed CRA regulations.

Very truly yours,

A handwritten signature in black ink, appearing to read "D. Mazzagetti".

Dominick A. Mazzagetti

DAM:ldk
Enclosure



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Comments of Dominick Mazzagetti, President of NJM Bank

Please accept the following comments in response to the several questions raised by the federal financial supervisory agencies regarding potential changes to the current CRA regulations.

Small Institutions

Q. 1. Does a small institution's lending activity effectively evaluate its CRA performance?

No. Many small institutions are major contributors to the well-being and economic viability of local communities and groups that support those communities. Focusing strictly on loans ignores these many other ways in which an institution can benefit its communities.

2. Is the asset size of an institution's holding company and the \$250 million threshold appropriate for determining whether a small institution is eligible to be evaluated based on its lending activities?

No. If the "small bank" test is maintained, the asset size should be increased to \$1 billion.

Large Retail Institutions

Q. 1. Do the regulations appropriately balance a large retail institution's lending activities, investments, branch distribution and range of services, and community development activities?

Large retail institutions should not be judged on geography-based standards. They can provide more innovative and effective loan programs and community programs if freed from this artificial restriction.

Data Collection and Maintenance of Public Files

Q. 1. Is it effective to require large institutions to collect and report data on small businesses, small farm and community development lending, as well as limited data about home mortgages lending outside MSA's?

No comment.

The Strategic Plan

- Q. 1. Does the strategic plan option, which allows an institution to pre-determine what portions of its conduct will be reviewed and what quantitative and qualitative considerations will be used, provide an effective alternative for evaluating financial institutions?*

Not in the present CRA scheme. If it were effective, the strategic plan option would be readily and often used today. Institutions should be given greater ability to devise and execute a self-created CRA plan in a more broad-based CRA scheme. Please see the comments offered at the end of the questions.

Performance Context

- Q. 1. Is it effective to examine a financial institution's performance based solely or substantially on its institutional plan?*

If the test to be utilized is established by regulations, the examiners should have the flexibility to weigh both subjective and objective criteria.

- 2. Is it relevant to compare information about an institution's peers as part of a CRA evaluation? To what extent should peer comparison be a component?*

Peer comparison is always a helpful tool, but should not be the only tool for measuring performance.

- 3. Should examiners balance the quality and quantity of an institution's activity, or would more specific and quantifiable measures be helpful in determining CRA performance?*

In the difficult and changing area of housing and lending, specific and quantifiable measures can often be misleading or of little help. Should an institution that has the ability and the market to generate low- and moderate-income loans be allowed to "pass" for doing the mere minimum while a hard-working institution in an area that offers few lending opportunities be criticized for not meeting minimums?

Assessment Areas

- Q. 1. Are assessment areas a reasonable and sufficient way to designate which communities will be the focus of an institution's CRA performance?*

The concept of "assessment area" is outmoded and should be eliminated. It hinders more than helps CRA activities.

2. *Should an institution's assessment area include locations where it delivers banking services, whether or not it has physical, deposit-gathering branches or ATM's there?*

See answer above and comments below.

3. *Should an institution's assessment area be affected by its delivery of services via the Internet?*

See answer above and comments below.

Activities of Affiliates

- Q. 1. Should activities of affiliates always be considered part of an institution's CRA record?*

Yes.

Limited Purpose and Wholesale Institutions

- Q. 1. Is it appropriate to restrict the community development evaluation method, which focuses on community development loans, services, and investments, to limited purpose and wholesale institutions?*

No comment.

2. *Do community development activities of limited purpose and wholesale institutions accurately reflect their CRA performance?*

No comment.

Other Comments:

The concept of an "assessment area" for each bank is outmoded and does not work well for many institutions. It should be replaced along with the "small bank" / "large bank" tests currently used by the OTS. I would suggest that the OTS replace the current scheme with two or more "tests" that do not rely on size. Each bank would be required to choose the test most appropriate to its operations.

One test could replicate the current "assessment area" test. An institution that operates as a community bank in defined neighborhoods, served by distinct branch sites, may choose to be judged on its efforts in those areas. A **second test** could look at the overall efforts of an institution to enhance affordable housing efforts without the restrictions of an assessment area. This test might serve well for Internet banks and banks that use remote service models (bank by mail, bank by phone). The institution could choose projects, programs or geographic areas to enhance affordable housing without the restriction of meeting specific percentage tests in defined areas. This type of test might encourage strong support for

innovative loan programs and housing projects that would otherwise have difficulty finding funding. A **third test** could separate the targets for low- and moderate-income **areas** and low- and moderate-income **borrowers**, so that a single institution could concentrate its efforts on those census tracts within its branch network, but also receive credit for loans to low- and moderate-income borrowers outside of those areas, drawn perhaps by direct mail and remote operations. A **fourth test** could be the current "strategic plan" option, an open-ended option, but better defined to draw more interest. Now that CRA examinations will fall, for the most part, in four year intervals, this plan could become more popular. Interim reviews initiated by the institution (not full examinations) could give an institution the ability to change approaches during the period between examinations to encourage greater use of this option.