



1000 Walnut, Suite 1100 (TB11-1)
Kansas City, MO 64106

46

October 10, 2001

Docket N. 01-16, Communications Division
Public Information Room, Mail Stop 1 – 5
Office of the Comptroller of the Currency
250 E. Street, SW
Washington, DC 20219

Re: Proposed Rules – Community Reinvestment Act Regulations

Ladies and Gentlemen:

Commerce Bancshares, Inc. is a registered bank holding company with total assets of \$11.7 billion as of June 30, 2001, and four bank subsidiaries. Three of these banks are retail banks, with approximately 340 locations in Missouri, Illinois, and Kansas. The other bank is a limited-purpose bank, with one office in Omaha, Nebraska. All of the banks are national banks. Commerce has implemented policies and procedures with regard to the Community Reinvestment Act (CRA). Affected bank personnel have been trained in the technical issues associated with the CRA. The Company also has operating subsidiaries involved in mortgage banking, credit related insurance, venture capital, and real estate activities.

We submit the following in response to FFIEC's request for comments on the Proposed Rules:

1. Large Institutions: Lending, Investment, and Service Tests

Do the regulations strike the appropriate balance between quantitative and qualitative measures, and among lending, investments, and services? If so, why? If not, how should the regulations be revised?

Comment – Overall, the regulations are allowing for appropriate balance between qualitative and quantitative measures between the three tests. For the most part, examiners are able to apply "context" to each of the criteria in ways that are generally fair to the bank under examination. The points available for each criteria are acceptable because of the minimum score required under lending - the focus of the regulation.

A. Lending Test

Does the lending test effectively assess an institution's record of helping to meet the credit needs of its entire community? If so, why? If not how should the regulations be revised?

Comment – The lending test is marginally effective at best due to two distinct deficiencies in the accumulation of reporting data. The two items consist of:

An outdated definition of small business and small farm loans, tied to Consolidated Report of Condition (Call Report) guidelines, needs to be revised to more accurately reflect the size of a small business in today's economy. The loan size and annual revenue limits need to be significantly increased because the Call Report loan size guidelines were established eight years ago. Safety and soundness have been the guiding factors of Call Reports, not CRA. Many of today's true small businesses will easily have annual revenues in excess of \$1 million and banks should receive credit for originating these loans. Small business and small farm annual revenues would be more accurate with a ceiling of \$10 million, as opposed to the current \$1 million. Loan sizes should also be increased to at least \$10 million to keep pace with the increased annual revenues.

The use of state non-MSA median family income averages for tract/BNA determinations in rural areas does not come close to showing the true lending to low- to moderate-income tracts/BNAs and their respective populations. The definition of a low- and moderate-income tract/BNA is actually providing disincentives for loans and investments in the rural communities where needs are as great as in the inner-city low- and moderate-income tracts. In the State of Missouri, significant disparities exist between rural and urban income levels. We recommend that the guidelines for low- and moderate-income tracts/families be reconsidered to assure that the low- and moderate-income definition reflect the economic reality of the geographies and families.

B. Investment Test

Does the investment test effectively assess an institution's record of helping to meet the credit needs of its entire community? If so, why? If not, how should the regulations be revised?

There are three issues concerning the investment test that should be addressed.

The first is in the underlying definition of community development investment. The current definition fails to give adequate credit to investments in entities that might be located in middle- or upper-income tracts that serve a greater area including low- and moderate-income tracts or families. If an investment is within a bank's assessment area, and/or covers a bank assessment area, the bank should receive credit for it regardless of the exact location of the investment.

The second item involves the definition of low- and moderate-income tracts as mentioned above under "Lending". Virtually all investments in rural areas primarily benefit low- to moderate-income tracts/BNAs if reasonable tract income determinations could be made. There are significant difficulties in finding qualified investments in rural areas due to the disparity in tract income determination between urban and rural areas.

There still remains a question as to whether or not donation type investments were ever intended to be a part of the regulation for evaluation purposes. Encouraging institutions to make profitable qualified long-term investments would be more in line with the intent of the law than short-term charitable donations.

C. Service Test

Does the service test effectively assess an institution's record of helping to meet the credit needs of its entire community? If so, why? If not, how should the regulations be revised?

The service test analyzes how well an institution provides financial to its entire community. Banks are meeting the demands of the service test as evidenced by overall performance evaluation results. If there were to be any revisions to the service portion of the regulation, it would be to give credit for non-financially oriented services provided by bank employees. In many communities, the competition is stiff between financial institutions for a limited number of qualified financial service opportunities. Allowing services that are not necessarily financial in nature would encourage a dedication of resources targeted where needs are the greatest with real community development enhanced. Bank employees often have non-financial skills (e.g. legal, information technology, marketing, and market research) that could be of great benefit to community groups or other non-profit organizations serving community needs.

D. Community development activities of large retail institutions.

Are the definitions of "community development" and related terms appropriate? If so, why? If not, how should the regulations be changed?

Qualifying activities, where community development needs are the greatest, should be a goal of CRA. Unfortunately, the lack of a logical definition of community development and low- and moderate-income tracts and families in non-MSA assessment areas significantly impairs banks'

abilities to adequately allocate limited investment and service resources. The redefining of community development in relation to low- and moderate-income tracts and families, as suggested above, would greatly enhance much needed community development opportunities.

The expansion of the definition of qualifying community development investments and loans, based upon the overall benefit to an assessment area, is also needed. Most local investments end-up benefiting all of an assessment area, including low- to moderate-income tracts and families. More investment and community development lending could be generated if the qualifying opportunities were expanded.

2. Small Institutions: No Comment as it is not applicable to this institution.

3. Limited Purpose and Wholesale Institutions: The Community Development Test

Are the definitions of "wholesale" and "limited purpose institution" appropriate? If so, why? If not, how should the regulations be revised?

Comment – The definitions of wholesale and limited purpose appear to be reasonable with no need for change.

Does the community development test provide a reasonable and sufficient standard for assessing wholesale and limited purpose institutions? If so, why? If not, how should the regulations be revised?

Comment – The standard for actually verifying the community development performance of a limited purpose institution is too vague to determine adequate individual institutional performance. In most cases, limited purpose institutions are guessing, along with examiners, on what constitutes adequate performance. There is also a disparity between similar sized limited purpose institutions (possibly serving similar large and non-local markets) during the exam process. If an institution happens to have its main office in an area with limited CRA needs, the institution receives a competitive advantage over an institution with an office in a high need urban area. The latter would have to expend more investment and service resources when its very presence in the community provides more local income and investment benefit than a non-urban institution with limited CRA expectations. It would make sense to exempt limited purpose institutions (such as credit card banks) that take limited deposits nationally. A review of the examination process should re-address the way a limited purpose bank effects the CRA results of its affiliate banks actually generating the deposits. If the affiliate has at least a "satisfactory" CRA rating, then the limited purpose bank could be given the same rating.

4. Strategic Plan – No comment.

5. Performance Context

Are the provisions on performance context effective in appropriately shaping the quantitative and qualitative evaluation of an institution's record of helping to meet the credit needs of its entire community? If so, why? If not, how should the regulations be revised?

Comment – For the most part, the provisions on performance context have been effective in shaping the quantitative and qualitative evaluation of this institution's record of meeting its community needs. The examiners have been quite fair with their analysis.

6. Assessment Areas

Do the provisions on assessment areas, which are tied to geographies surrounding physical deposit-gathering facilities, provide a reasonable and sufficient standard for designating the communities within which the institution's activities will be evaluated during an examination? If so, why? If not, how should the regulations be revised?

Comment – The assessment areas created as a result of the 1995 CRA regulatory revisions appear to be reasonable and manageable. The criteria for establishing assessment areas should not be changed. However, the existing rule does not address reinvesting in the primary areas from which a specialized bank (such as an internet bank) receives its deposits. This needs to be addressed in such a way as to prevent unfair competitive advantages for internet banks experiencing lower costs associated with CRA.

7. Activities of Affiliates

Are the provisions on affiliate activities, which permit consideration of an affiliate's activities at the option of the institution, effective in evaluation the performance of the institution in helping to meet the credit needs of its entire community, and consistent with the CRA statute? If so, why? If not, how should the regulations be revised?

Comment – This institution includes an affiliate's activities in recording CRA performance. This option, allowing the inclusion of the affiliate's activity, is reasonable and puts no more burden on the institution than what the institution desires in order to obtain the related benefit. It should be left to the deposit taking insured bank to include or exclude the affiliate's performance. In the case of an affiliate mortgage company, the association with the bank will determine the overall lending success and service to the assessment area. Evaluating the combined entities' performance, at the bank's option, is reasonable and should not be changed. Failure to consider affiliate's activities would emphasize legal form over economic substance. Examiners are capable of identifying entities that try to misuse this option to manipulate CRA results.

8. Data Collection and Maintenance of Public Files

Are the data collection and reporting and public file requirements effective and efficient approaches for assessing an institution's CRA performance? If so, why? If not, how should the regulations be revised?

Comment – As noted earlier, the definitions of small business and small farms need to be revised to include businesses and farms with greater revenues. Corresponding increases to the loan sizes for each are also recommended.

The creation and maintenance of public files at each branch is an unnecessary burden. For the most part, the public rarely reviews the files. When the files are reviewed, rarely will the consumer benefit from the file's contents. Since banks are now examined based upon their actual CRA performance, the need to maintain a file showing all the bank's products and services, hours of operation, and a copy of the last performance evaluation is unnecessary. It would be more reasonable to post a notice on the wall indicating the bank's current CRA rating and from whom a copy of the bank's most recent performance evaluation may be obtained (either through the related regulatory body or through the bank's main office). The bank must already provide relevant marketing information to the public in order to ensure adequate CRA performance. It would be better to eliminate this required portion of the public disclosure and have the banks focus more of their performance efforts.

Thank you for considering our comments.

Sincerely,

Paul J. Costello
Assistant Vice President
Manager – Community Compliance
