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Household

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October 17, 2001

Communications Division
Office of the Comptroller of the Currency
Public Information Room, Mail Stop 1-5
250 E Street, S.W.
Attn: Docket No. 01-16
Washington, DC 20219

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
Attn: Docket No. 2001-49

Re: Community Reinvestment Act Regulations - Advance Notice of Proposed Rulemaking ("ANPR")

Dear Sirs:

We appreciate this opportunity to comment on the ANPR issued to solicit input regarding the existing regulations implementing the Community Reinvestment Act ("CRA"). Household Bank, f.s.b., Wood Dale, Illinois; Household Bank (SB), N.A., Las Vegas, Nevada; Household Bank (Nevada), N.A., Las Vegas, Nevada; and Beneficial National Bank USA, New Castle, Delaware (together, "Household") respectfully submit the following comments.

Overall, Household believes that the CRA regulations are working fairly well and no significant change is warranted. Recognizing that the challenges posed by implementing the vague requirements of a statute written in a vastly different banking environment are significant, the current rules provide a workable balance between the purpose of the law and the practical realities of today's banking business. Most importantly, we stress that the business and technological developments that are rapidly changing the financial services industry in and of themselves contribute to the continuing growth of credit availability across this country. It is imperative that regulations continue to allow this change and development, and thereby encourage the continued health of the nation's financial system and the widespread access to credit that a strong banking system can provide.

With respect for the need for regulatory flexibility, we would like to particularly support the continued availability of the "Strategic Plan" option, under which three out of four Household banks operate. In contrast to the after-the-fact analysis present in most CRA evaluations, the Strategic Plan process provides for front-end input by community representatives and regulators regarding community credit needs and qualifying activities. While the process has been a learning experience for all parties involved, the overall result has been an expanded dialogue between Household and the communities in which it operates. Specifically, the plan process has served as a catalyst for meetings and correspondence with community leaders in the Chicago, Las Vegas, and Wilmington, Delaware, communities, who have contributed significantly to the formation of each Household plan. Moreover, we believe it is significant that the written content of a Strategic Plan provides up-front documentation of analysis and information that is available for public review and comment, in contrast to the select and often brief conversations that may take place with community representatives during a CRA examination process, or even the summary information contained in a CRA performance evaluation.

Regarding the focus of the CRA rules more generally, we have the following comments and suggestions:

- CRA lending and investment "credit" for originating and holding loans and investments should be the primary focus for any regulatory test. Current application of the existing rules provides the impetus for institutions to "churn" CRA loans and investments, when in fact long-term investments and relationships may provide the most benefit to a community or particular program. Thus, we suggest that the overall evaluation of an institution specifically include not just <u>new</u> funds extended, but the existing commitments and funds outstanding.

- The definition of "community development services" should be expanded to include services that are not necessarily financial in nature, but are still critical to community development. For example, a financial institution may have the capacity to contribute marketing or information technology services to a community development organization, or even to provide physical facilities to such a group. A community organization may need volunteers to stuff envelopes, paint houses, or weed a garden, all of which may contribute to the revitalization of a low- or moderate-income neighborhood. The fact that the volunteers may not perform such activities in the course of their employment with a financial institution should not remove such contributions of service from the institution's CRA evaluation.

As an additional note, we are concerned that the current version of the CRA Performance Evaluation ("PE") used by the Comptroller of the Currency for a "limited-purpose" *institution does not appropriately reflect the purpose of* CRA or even the CRA performance of the institutions for which it is used. While we appreciate regulatory efforts to provide consistency in the evaluation process, the fact remains that communities will have very different needs and institutions vary significantly. While the PE includes charts comparing asset size and income versus grants and investments, information relating to these dollar amounts is inconsistent, and is of limited utility since the PE format does not indicate how the dollar amounts relate to existing community credit needs. Many limited purpose banks belonging to non-bank organizations securitize or otherwise transfer varying amounts of assets off-balance sheet. Others are affiliated with large multi-bank holding companies, and operate almost as divisions of other banks. Some are based in major metropolitan areas, others in rural communities. The suggestion presented by the PE format that there is some acceptable "assets to investment" or "income to investment" percentage nationwide is inconsistent with the CRA and does not benefit either regulated institutions or the communities in which they operate. Thus we suggest either (i) that the charts be removed from the PE or, alternatively, (ii) that they be created based on a consistent measure (e.g., number of active accounts, managed assets, etc.) and that it is clearly noted that they only relate to the institution's capacity to provide credit on investment capital – not existing community credit needs.

Household appreciates this opportunity to comment on the ANPR, and would like to acknowledge the assistance we have received from both agencies in our efforts to apply the existing regulation to our variety of non-traditional banking operations. If you should have any questions regarding this letter, please feel free to contact me at (847) 564-7941.

Yours truly,

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Martha Pampel
Associate General Counsel
Federal Regulatory Coordination

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