WISCONSIN BANKERS ASSOCIATION

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January 24, 2005

VIA FACSIMILE
Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G. Street, N.W.
Washington, DC 20552
202/906-6518

Attention: No. 2004-53; Community Reinvestment Act Proposal

Dear Ladies and Gentlemen:

The Wisconsin Bankers Association (WBA) is the largest financial institution trade association in Wisconsin, representing over 300 state and nationally chartered banks, savings banks, and savings associations located in communities throughout the state. WBA appreciates the opportunity to comment on the Office of Thrift Supervisions' (OTS's) proposed rule regarding the Community Reinvestment Act (CRA or Act).

Specifically, the OTS proposes to amend its definition of "community development", and revise how it assigns its CRA ratings. WBA applauds OTS's efforts and strongly supports the proposed changes.

The OTS's proposal expands the definition of "community development" by addressing rural areas as well as any areas affected by natural or other disasters or other major community disruptions. Thus, under the proposed definition, community development would also include: (1) community services targeted to individuals in rural areas; and (2) activities that revitalize or stabilize rural areas. Community development activities in rural areas would be covered even if the individuals or areas served are not low- or moderate-income. This contrasts with the current definition of "community development," which focuses on activities that benefit low- and moderate-income individuals or geographies.

WBA believes this proposal will encourage all savings associations to increase their community development lending, qualified investments, and community development services in rural areas, with a particular focus on increasing these activities in underserved nonmetropolitan areas.

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WBA believes that the current definition limits the opportunities available to make CRA loans and investments particularly because the opportunities are most prevalent in urban areas. This can place some savings associations at a competitive disadvantage and does not fully serve the purpose of the Act—for local financial institutions to meet the credit and other needs of the communities in which they are located. By expanding the definition, more institutions will be in a position to better meet the needs of the communities in which they are located which, in turn, is consistent with the purpose of the Act.

The OTS also proposes changes to its CRA ratings scheme by allowing large savings associations to self-determine what weight each of the three tests (lending, service, and investment) will contribute to the overall CRA performance rating. WBA support these changes as well.

Under the current ratings scheme, large retail institutions are evaluated on a matrix of scores on three tests: lending, service, and investment. Lending has a weight of 50% of the total score, while service and investments have weightings of 25% each. Under the proposed rule, OTS would allow each savings association evaluated under the large retail institution test, to determine the weight given to lending, investments, and services in assessing its CRA performance except that OTS would not allow less than a 50 percent weight to lending. The remaining 50 percent would weigh lending, investments, or services, or some combination thereof, based on the savings association's election. As a result, each savings association could choose to have OTS weigh lending anywhere from 50% to 100% for that association's overall performance assessment, services anywhere from 0% to 50%, and investments anywhere from 0% to 50%. In effect, the proposal would allow large savings associations to drop from consideration either their service or their investments. WBA fully supports the proposed changes which allow these institutions to determine the weight given to the three tests, as outlined above.

In the alternative, OTS asks whether it should simply eliminate the investment test. With respect to the investment test, WBA believes most savings associations engage primarily in lending activities. And, other than CRA requirements, many conduct investment activities only to the extent of managing assets and liabilities as necessary to balance lending and liquidity. Because of the fairly rigid 3-part CRA sub-test ratings scheme now in effect, many institutions are compelled to seek out investment opportunities that have little or no relation to the institution's business model.

The need to venture out to identify and evaluate investment opportunities that are suitable for CRA purposes is a time-consuming process. Many institutions do not have the personnel and supporting infrastructure already in place to conduct the necessary due diligence to perform these functions.

The result is that for too many institutions, investments are sought out and made purely to satisfy regulatory requirements, and it is uncertain whether such activities necessarily benefit communities more than straight lending would. Under the proposal, financial institutions would have the flexibility to focus more on those activities that are more aligned with their expertise and resources.

As for the elimination of the investment test altogether, the WBA does not see the need to do so if the institution is given the deference to determine their own particular weighting, as previously described. WBA believes the preservation of this test, under the above circumstances, furthers the OTS's goal to provide additional flexibility in assigning CRA ratings.

Once again, WBA supports the changes proposed by OTS and appreciates the opportunity to provide comments on these important matters.

Sincerely,

Kurt R. Bauer
President/CEO