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July 20, 2007

Jennifer J. Johnson
Secretary, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: FRB Docket No. OP-1290

Dear Secretary Johnson:

Johnson Financial Group, Inc. is a $4.3 billion financial holding company headquartered in Racine, Wisconsin. Johnson Financial Group delivers commercial, mortgage, and consumer banking services as Johnson Bank located in 49 branch offices in Wisconsin and Arizona. In addition, Johnson Community Development Corporation (JCDC) is a wholly-owned subsidiary of Johnson Bank whose primary purpose is to function as a Qualified Community Development Entity in order to participate in the New Market Tax Credit program. To date, JCDC has been allocated $92 million in tax credits from the U.S. Treasury Department to invest in low-income community businesses.

I am writing to submit comments for consideration on the proposed Interagency Questions and Answers (Q&A) Regarding Community Reinvestment. The following comments are the specific areas of concern that are most significant to us as a result of the proposed changes. In addition, we are raising an additional issue that is relative to the existing provision for favorable consideration of small unsecured consumer loans in light of the separate FDIC "Affordable Small-Dollar Loan Guidelines" released on June 19, 2007 and public scrutiny of the payday lending industry.

NEW Q&A III. Examples of "Other Loan Data"

The proposed Q&A has a provision that has examples of "other loan data" that are used to illustrate activities that are types of loans that can be considered in the lending test that do not have a requisite primary purpose of community development. One bullet specifically states "Loans that do not have a primary purpose of community development, but where a certain amount or percentage of units is set aside for affordable housing". We have a concern that there is the potential for confusion when this is put side by side with the existing requirements for a community development purpose where the measurable benefit is less than a majority of the entire activity's benefits or dollar value.

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Our real life example is in the case of a non-profit agency that is developing affordable multi-family rental housing. If the proposed funding involves the Low Income Housing Tax Credit program or a Tax Exempt Bond issuance, the minimum affordable housing set-aside can be accomplished if 20% of the units are reserved for low-income households whose incomes are at or below 50% of median income. We must then make the CRA determination: can a 20% set-aside be a requisite primary purpose of community development or does this represent only a percentage set-aside for affordable housing? In addition to lending test consideration, data reporting requirements hinge on the differentiation.

We believe in this case that the requisite primary purpose has been fulfilled in accordance with the existing Q&A: namely, the express bona fide intent of the activity is to provide a specified number of units of affordable housing, the activity is specifically structured to achieve the purpose in accordance with the tax code, and the activity accomplishes the community development purpose when the low-income set-aside units are put in place. However, we believe that additional context in the guidance would assist us as well as provide examination staff with definitive criteria to distinguish between "primary purpose" of community development versus "other loan data". We would advocate that language be added to confirm that fulfillment of IRS set-aside requirements for affordable housing units is bona fide evidence of a community development purpose. We believe that this is particularly necessary to distinguish voluntary IRS compliance from compulsory local "inclusionary zoning" requirements, which we believe fall more appropriately under the "other loan data".

Revised Q&A I. Activities that promote economic development

The proposed Q&A adds the specific presumption for the community development "purpose test" for any loan to or investment in a New Market Tax Credit (NMTC)-eligible Community Development Entity. As Johnson Bank is an active participant in NMTC lending, we appreciate the intent to formalize CRA recognition of community development activities associated with the program. It is important to recognize that because of the unique definition of a "low-income community" adopted by the U.S. Treasury in the NMTC program, there are areas targeted for redevelopment outside of low- and moderate-income census tracts. These additional areas have severely concentrated poverty (see IRC §§45D(1)).

This condition may lead to uncertainty whether each individual loan or investment in the NMTC program is CRA qualified with the requisite community development purpose. We believe that the revised provision would be strengthened with a specific reference that makes clear that by virtue of meeting the NMTC program definition of a "low-income community" the geography is targeted for redevelopment by the Federal government irrespective of the median family income attribute.

Revised Q&A II. Examples of community development loans

We support the proposal to add the example of an SBA 504 loan greater than $1 million to a business as a community development loan purpose. Our reading of the proposal leads us to conclude that this in not contingent on the location of the business enterprise being in a low- to moderate-income census tract. Accordingly in addition to the new bullet, we recommend that language be added to emphasize that the property location of the business is not a determining factor for a SBA 504 loan.

Existing provision under .22(a)—1 … lending activities that help meet the credit needs of an institution's assessment area(s) and that may warrant favorable consideration as activities that are responsive to the needs of the institutions' assessment area(s)

We recognize that the promotion of an affordable small-dollar loan product is within the public policy interest of the Community Reinvestment Act to encourage financial institutions to be responsive to the credit needs of the community. However, we believe that in light of the recently issued FDIC guidance and public scrutiny of the high-cost payday lending industry, the Q&A must be expanded to adequately define the criteria under which a small loan program would qualify for favorable CRA consideration.

Johnson Bank offers what we believe to be an affordable small-dollar loan and for the sake of illustration, list the following features of our product: an open-end personal line of credit with a $500.00 minimum amount, $20.00 annual fee, 18% fixed interest rate, no advance fees, payment monthly of 5% of the unpaid principal balance with a $15.00 minimum. As a condition for the loan, advances are made via an overdraft from a corresponding Johnson Bank checking account and payments must be auto-drafted from a Johnson Bank deposit account or established via ACH payments from another financial institution. We contend that these attributes are consistent with the "Affordable Small-Dollar Loan Guidelines" previously published by the FDIC.

Without similar appropriate guidance in the Q&A, however, there is no definitive means of determining whether this product currently meets the size standard of "small" and whether the pricing is "affordable". We also have concern that without these standards, examining agencies may be inconsistent in evaluating these activities. Accordingly we recommend that the proposed Interagency Guidelines be expanded to further define the product attributes of size, cost, reasonable fees, type of loan structure, or target market limitations (similar to this issued by the FDIC) that could be used in determining the qualification of a loan product for favorable consideration under CRA. These basic requirements are needed for financial institutions to give the appropriate consideration of product development opportunities and to effectively make product changes to continue to offer them on a profitable basis.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Robert A Reinders

Robert A Reinders
Assistant Vice-President/Community Reinvestment Officer

cc: Richard A. Hansen, President and CEO, Johnson Financial Group
Russell C. Weyers, President and COO, Johnson Bank
Kurt Bauer, Executive VP, Wisconsin Banker's Association