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April 3<sup>rd</sup>, 2020

By electronic delivery to:  
Email [comments@fdic.gov](mailto:comments@fdic.gov)

Robert E. Feldman, Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429

Re: Notice and Request for Information Regarding Proposed Changes to the Community Reinvestment Act; 85 Fed. Reg. 1204 (Jan. 9, 2020) [RIN 3064–AF22]

Dear Sir or Madam:

First Security Bank and Trust<sup>1</sup> appreciates the opportunity to comment on the notice of proposed rulemaking by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) (together, the agencies) regarding improvements to the Community Reinvestment Act (CRA) implemented in 1977 by Regulations 12 CFR parts 25, 228, 345, and 195.

The proposed rule seeks to make meaningful updates that recognize the technological changes the financial industry has undergone since the original implementation of the regulation, while also incorporating the evolving needs of communities. The agencies also understand that current regulatory framework is unclear and hard to comprehend, which leads to CRA examinations that can be unpredictable and inconsistent. The proposed changes seek to make CRA more effective by clarifying and expanding what qualifies for credit, expanding where CRA activity counts, providing an objective method to measure activity, and revising data collection, recordkeeping, and reporting requirements. First Security thanks the FDIC and OCC for their work drafting this proposal.

First Security believes in the positive effect the Community Reinvestment Act has on the lives of others and we are fully committed to supporting the financial needs of the communities we serve. We work with local leaders to develop strategies that we hope will achieve the most significant impact within our assessment area (AA). Please take a moment to review a few examples:

- We contribute \$60,000 annually to the Charles City Economic Development Organization to ensure the success and growth of the business community we serve.
- We have committed \$100,000 paid in annual installments of 20,000, to North Iowa Area Community College for the construction of a new STEM wing that helps the students of today be properly prepared for the jobs of tomorrow.

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<sup>1</sup> First Security Bank and Trust is an FDIC regulated commercial bank headquartered in Charles City, IA. With 13 locations across North Central Iowa, First Security had assets of \$498,504 as of 12/31/2019.

- We donated \$25,000 from bank funds and \$25,000 from the First Security Charitable Foundation to help build a new convention center at the Franklin County Fair Grounds. This effort was matched by \$25,000 in community donations for a total impact of \$75,000.
- Each year, our estimated 130 employees volunteer more than 3,000 hours to different organizations in the communities they call home.
- We engage Everfi to provide financial education and promote financial literacy in the classrooms of more than 1,000 elementary, junior high, and high school students, half of whom are low and moderate income (LMI), across nine different school districts each year.
- We annually hold a day-long Field to Finance agriculture seminar for the benefit of local farmers. For this event, we hire speakers to present on a variety of educational topics that we believe will help attendees plan for their financial future and help their ag operations succeed.

In short, we believe the success of our bank is dependent upon the success of our communities and we continue to try to find new and innovative ways to deliver products and services to rural Iowa residents.

#### SUPPORT FOR PROPOSAL

First Security Bank and Trust supports the efforts of the agencies to make updates to CRA that will seek to ensure that financial institutions of all sizes can aid the communities they serve. We are receptive to efforts by the agencies to help banks more accurately identify what qualifies for CRA consideration by establishing more inclusive CRA criteria, publishing lists, and allowing us to submit requests for confirmation to determine qualification prior to examinations. We appreciate that qualifying activities have been expanded, and we believe the criteria within the proposal supports the original intent of the Community Reinvestment Act. We also endorse any rules that are put in place to identify institutions that are not committed to CRA.

We are encouraged by the agencies' efforts to expand where CRA activity counts and how assessment areas are defined. However, we believe it is important to ensure that careful consideration is taken in determining how these definitions are established. It is also important to consider banks of all sizes, business models, and their locations, especially banks that operate in rural and sparsely populated areas. We recognize the difficulty in trying to establish fair, transparent, and consistent performance standards when determining how to apply rules to financial institutions that operate in the diversity that exists in modern banking. Therefore, we think it is important that time is taken to ensure that any changes are well thought-out, and that consideration is taken regarding the negative impacts that could result.

#### INTERAGENCY CONSENSUS

While we are an FDIC supervised institution, we are disappointed that there is no consensus among all three agencies on the proposed changes. We believe that both financial institutions and those that benefit from the Community Reinvestment Act are best served with an interagency regulation that is well thought out and considers financial institutions that all three regulators represent. Two different sets of regulations will create several different performance measures among different sized banks. We believe this will result in confusion and inconsistency and ultimately, will not be in the best interest of the communities that CRA is meant to help. We believe financial institutions and those that benefit from CRA would be best served by all three agencies working together, using this proposal and the comments that result, along with the Federal Reserve's proposal and issue a revised interagency proposal. We would like to see the FDIC and OCC work with the Federal

Reserve to carefully consider all information available and ultimately issue an interagency proposal for all agencies, organizations, and the public to consider in the future.

#### IMPLEMENTATION TIME AND TESTING

First Security Bank strongly supports an objective standard that all financial institutions can use to measure and report their CRA performance. However, the proposal imposes significant data collection and record keeping requirements on financial institutions. It is unclear how the proposed performance standards were developed and what metrics were considered to determine if they would be achievable by institutions of all sizes. Because of the expansive nature of the changes proposed, the limitations of our systems in place today, and the implementation timeframe, it is impossible to know how our current CRA activity would measure within the proposed criteria. Therefore, we are only able to comment in general terms on what we believe will have positive or negative impacts on our institution and the communities we serve. We can also attempt to make recommendations, but without the ability to test, we cannot know for sure how this proposal would ultimately affect our institution and CRA program.

Because we cannot test the proposed changes to see how they might affect our communities, we recommend that the agencies pause the implementation timeline and thoughtfully consider all the comments and recommendations they receive while including the Federal Reserve in this process. We would like the opportunity to test how any proposed performance changes will impact our CRA program, so we may determine any impact the changes may have. This would allow us to provide more insightful feedback. Taking this additional time to allow institutions to test will make certain that the performance measurements that are put into the final regulation are proportional to the size of the financial institution and the communities they serve, while not creating an undue compliance cost or burden on smaller institutions. At the same time, this would result in a timelier and more efficient CRA evaluation, while still guaranteeing that financial institutions of all sizes are meeting the credit needs of the communities we serve.

#### DEFINITION OF SMALL AND LARGE BANK

First Security Bank strongly opposes the removal of the Intermediate Small Bank category from community development testing and including those banks into the definition of Large Bank. The proposal provides no basis for removing this category. Currently we are examined as an intermediate-small bank and under the proposed regulatory guidelines we are just under the threshold of large bank. There are marked differences between a \$1.284 billion and a \$500 million bank, not only in terms of assets, but also in resources, innovative banking features, and the variety of financial services we can offer. There is also a difference in the opportunity to attract new customers when we are providing services to a rural assessment area that includes four full counties and five partial counties with a total population of 100,000. Furthermore, the population continues to decline as people move to more urban areas. In fact, the closest MSA itself has a population of 163,000. While small community banks struggle to compete with large banks we are especially vulnerable to credit unions. They have continued to expand throughout our state unchecked and draw rural deposits away from our area for the purposes of funding commercial construction projects in urban areas. This reduces the amount of funds smaller banks have available to lend and ultimately to contribute toward CRA.

We do not believe banks of our size should be evaluated on the same level as an institution below \$500 million, because we do have the capacity to give more. But at the same time, we are not comparable to a billion-dollar bank, nor are we comparable to a bank in an urban area with a larger



potential customer pool. Therefore, we believe that either the small bank threshold should be adjusted to account for rural banks with a higher threshold or there should continue to be an intermediate-small bank category that acknowledges the differences between the two sizes and provides for a performance measurement that is comparable. The definition of small creditor or rural small creditor as it applies in Regulation Z is a much more appropriate way to define banks of our size than using a flat dollar threshold alone.

#### INCLUSION OF CONSUMER LOANS

We generally agree with most of the criteria under qualifying activity and the proposed definition of qualifying activity. We also agree with most activities the agencies recognize as qualifying activities. We think it is a positive improvement that consumer loans will now be included as a qualifying activity. Providing personal and automobile loans at reasonable interest rates is important to households, including those that are of low and moderate income. It is equally important that community banks continue to provide access to these types of loan products, so families do not have to consider alternative products such as payday loans. However, the agencies should recognize that these types of loans in a small rural area such as ours are generally a minor part of a primarily agricultural, business, and residential portfolio.

Under the proposal, our consumer portfolio would not qualify to be included as part of our CRA exam. Although these types of consumer loans are generally not profitable for an institution such as ours, we believe it is important for borrowers to have access to this type of credit when they need it. Banks should be recognized for making these low-cost loans available. In 2019 we originated \$4,732,339 in consumer loans. A total of \$3,348,874 was lent to LMI individuals. This is not a significant amount compared to other business lines and our consumer loans overall amount to approximately 3% of our portfolio. But we believe it is still important to provide access to personal loans and make credit available to individuals that may not have alternative options. We do not believe including consumer loans should be required, but if a bank does opt to include them within their CRA exam, the percentage of the consumer portfolio should not matter. This will allow banks of all asset sizes who wish to track and submit this data to receive recognition for providing LMI borrowers with an alternative to predatory lending products such as payday loans.

#### SMALL BUSINESS AND SMALL FARM

We appreciate that the agencies are proposing to revise the definition of small business and small farm loans to \$2 million and count all small loans to farm and businesses in LMI census tracts.<sup>2</sup> However, this could inadvertently have negative consequences regarding how we and possibly other smaller banks are rated. Most of our loans are to small business and small farms and loan amounts are under \$2,000,000. Under current rules, loans that specifically meet the definition of community development but are over the small farm/small business loan thresholds can be counted as CD loans. However, because these loans would now likely be under the threshold, they would be shifted to retail loans, thus reducing the number of specific CD loans we would have.

Opportunities for community development lending can be limited within our AA, and this would create the additional difficulty of needing to find occasions to lend over \$2 million within the two low-moderate census tracts in our AA or make smaller loans that meet the definition of community development to large farms and businesses. Again, being in a rural area limits prospective lending

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<sup>2</sup> Small loans to business and small loans to farms provided to (1) small businesses or small farms in census tracts or all income levels or (2) business or farms in LMI census tracts. The proposal would increase the size thresholds for a small loan to a business and a small loan to a farm to \$2 million or less.



possibilities within our AA. In addition, banks in our size range of \$500 million to \$1.3 billion do not have the same resources that large banks (as defined under today's CRA) do. We believe that most banks will experience this issue. Therefore, we think banks should be given the latitude to choose to classify certain small business or small farm loans that meet the definition of a community development loan as a CD loan rather than under the retail loan definition.

We agree with adding a criterion for family farm purchases or leases of farm land, equipment, and other inputs or the sale and trade of family farm products. It is important that community banks be able to focus loan dollars toward agriculture. The rural economy depends on the success of farming to continue to help our communities thrive.

#### DEFINITION OF AFFORDABLE HOUSING

We agree with the agencies expanding the definition of affordable housing to include "naturally occurring affordable housing." Through interviews with city leaders, we consistently hear that affordable housing is always a top concern. Therefore, it is important for us to continue to provide loans to borrowers who in turn provide affordable rental housing. We appreciate that we can now include these in our CRA submission. We also agree that CRA activity that benefits and serves LMI individuals should be counted, even if it does not occur within LMI census tracts. We only have two LMI census tracts, but there are many LMI households throughout our AA. Therefore, we have always provided support to our communities through donations, investments, and loans when possible. We appreciate that we can receive recognition for residential lending to LMI borrowers throughout our AA.

#### REVISED DEFINITION OF HOME MORTGAGE LOAN

We don't agree that it is necessary to redefine home mortgage loans and reference them to the Call Report as opposed to using the HMDA definition. We feel the HMDA definition continues to be the most appropriate definition for home mortgage loans.<sup>3</sup> We do not believe 1-4 family construction loans should be included in the definition of home mortgage loans. These loans are generally short-term loans of one to two years. In almost all cases, borrowers refinance or convert their loan into permanent financing of a long-term loan at the same institution. Counting construction loans would result in a bank receiving credit for the same loan twice.

#### USE OF AVERAGE MONTH END BALANCE

First Security Bank appreciates the agency's concern that financial institutions may receive too much credit for certain activities, and we agree that banks should not benefit from activity that is not new. Financial institutions that seek to show they meet the needs of their communities when they are only purchasing loans and investments just prior to an evaluation - only to sell these after an evaluation - should not be rewarded. But we don't believe most financial institutions seek to find ways to avoid their responsibilities under CRA. When regulators identify this type of activity is occurring within a financial institution, we feel this should be addressed on an individual basis. We don't believe instituting a "haircut" on loans not retained in portfolio, using the average month end balances, or the Call Report for loans or investments is the best way to address this issue.

We believe the current method is still the best way and that loans should be considered by the amount originated and investments should be tracked by the original amount of the investment until sold. Tracking a monthly average balance will create regulatory burden and potential problems for a few reasons:

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<sup>3</sup> Home mortgage loan means a closed-end mortgage loan or an open-end line of credit as these terms are defined under 1003.2 and that is not an excluded transaction under 1003.3(c)(1) through (10) and (13).

1. Institutions that are less than \$3 billion are on an 18-month examination cycle. This means a CRA examination will only occur every 3 years. Valuing loan and investments monthly when balances don't fluctuate is unnecessary and burdensome.
2. Even though there may be an approved list of CRA qualified activity, financial institutions will include loans that examiners feel do not qualify. If the examiner determines at the time of review that a loan, investment, or service should not be included, the overall figures for measurement purposes will no longer be accurate. This could make all figures used for data submission and determining the presumptive rating over the past three years invalid.

#### HAIRCUTS ON SECONDARY MARKET FINANCING

We strongly disagree with the proposed haircut to loans sold not held in portfolio. These loans are often a large part of a community bank's consumer portfolio. Banks choose to lend a combination of secondary market and portfolio loans to maintain liquidity and reduce interest rate risk. From a safety and soundness perspective, a financial institution should maintain a combination of residential loans within their own portfolio while also selling to the secondary market and would be criticized if they did not. As originally intended with the Community Investment Act, banks are encouraged to make lending decisions that are safe and sound, and so should not be penalized for creating such lending policies. In addition, if financial institutions did not sell loans to the secondary market, it would reduce the funds available to lend within the community.

While the secondary market loans that banks offer may be like those of their competitors, each bank must individually price their loan products, attract customers, and then create lasting relationships. The origination and sale of a loan to the secondary market is more time consuming and labor intensive than originating a portfolio loan. Our financial institution sells loans to Government Sponsored Entities (GSE). They have strict requirements that must be met every year to continue to receive funding. GSEs also have requirements on how soon after a loan closes that it must be sold. The GSEs we sell to require that the loan be sold before the lock expires. To hold the loan on our books for 90 days so we may count 100% of the loan amount, we would have to extend the lock. Extended lock terms increase the customer's rate, so we lock a loan for the shortest time possible. This allows the borrower to obtain the lowest rate possible. But short locks result in a need to sell the loan immediately after it has funded.

In addition, we service our own loans. While we do maintain a portion of the interest rate, the profit margin on servicing is narrow. Maintaining the servicing of loans creates an added layer of risk. Even though secondary market loans may have mortgage insurance, there is still the potential for loss associated with collections and foreclosure. USDA loans are only guaranteed to 90% so we accept the risk associated with the remaining 10%. Not all the collection, attorney, home maintenance, court, or other costs associated with a foreclosure are reimbursable by the investor. However, we choose to provide local servicing because we think it is important as part of our efforts to develop a strong relationship with our borrowers and provide a resource for them when they need guidance throughout the life of their loan.

A 25% haircut on our residential real estate community development loans over a three-year examination cycle would drastically reduce the representation of our LMI lending. For example, in 2019 we originated \$27,606,403 in residential loans. Of that total, \$7,621,627 were to low- and moderate-income borrowers. We sold \$4,103,897 of that total to the secondary market. If we could not count 100% of those dollars, it would reflect that we had only originated \$4,543,704 of the

\$27,606,403 in home mortgage loans to LMI borrowers. Ultimately, our CRA results would reflect a decrease in lending to LMI residential borrowers from 27% 16%. This is not a fair and accurate representation of the loans we make to LMI borrowers and would reflect negatively in our exam.

#### VOLUNTEER ACTIVITY

We appreciate that agencies have expanded how volunteer activity is counted and have made attempts to quantify this activity. However, we do not agree with using estimated salaries based on the Bureau of Labor Statists and job categories to do this. The proposed process is labor intensive and overly burdensome. Tracking and qualifying activities is already time consuming. The added requirements would require us to attempt to determine the comparable job category, determine the appropriate wage, and then complete the calculation. Some types of volunteer activities may be difficult to categorize. Each year, we have approximately 40 different volunteer activities that are tracked. Labor wages change annually, so they would have to be reverified and recalculated each year. Volunteer work and employees also change from year to year. Because of the burdensome nature of this type of requirement, it would make tracking impractical and an institutions would likely forgo including volunteer activity within their CRA submission. We believe the best approach is to continue to track and submit individual service activity with the possibility of including volunteer hours. There is not a current metric for hours to compare activity to, as this has not been tracked in past examinations. However, this information would be available after an examination cycle or could be obtained through a survey of financial institutions. A metric could be developed after the data is available.

#### FACILITY BASED ASSESSMENT AREA

We agree with the agencies that there is a need to modernize how assessment areas are determined. We think there is a need to consider how technology has changed banking, but we have several concerns and questions. The proposal indicates that facility-based AAs will delineate where they have a main office, a branch, or a deposit-taking facility and the surrounding geography where a bank has originated or purchased a substantial portion of its loans. However, the proposal does not define deposit taking facility or what “a substantial portion of its loans” means. We are concerned that a deposit taking facility may include an Automated Teller Machine (ATM) or Interactive Teller Machine (ITM). We do not believe an ATM or ITM would equate to a brick and mortar building. It would be helpful for a revised proposal to include the agencies’ intent.

The proposal would require the AA to include where a branch is located and where a substantial portion of its loans are located, but “substantial” is not defined. In addition, the proposal changes the definition of AA to include the smallest geographic level as a county, rather than a census tract as was previously allowed. We do not agree that the smallest geographic level should be a county. Within the rural areas, counties may consist of a few small towns with expanses of rural land in between. Customers will often not travel across the county to establish a relationship with a bank if there is a bank within a short distance of their own town. It is not feasible for a financial institution to have community development activity or seek to establish customers in a town located on the other side of a county that is 15 miles from the branch. Furthermore, considering a county to be the smallest geographical area would result in the misclassification of many customers who may bank in the town nearest them but located across the county line where a branch is not located. This can cause loan or deposit customers to be in close census tract but in an adjacent county.

Currently we have five partial counties in our AA because the furthest census tracts of these counties have minimal loan activity. Only one of these five partial counties have a branch within it.



We would like to continue to delineate down to census tract as we believe this is more appropriate for rural areas. We also believe that the AA should continue to include individuals a bank can reasonably be expected to serve as this is more applicable in a rural community.

#### DEPOSIT BASED ASSESSMENT AREA

While we do not believe we currently fall under the deposit-based definition of AA, we have many concerns with the proposal because the possibility of have a deposit-based AA exists in the future. Between this and the proposed performance measurements, we will be required to geocode all customers. This will be a time consuming, labor intensive, and a manual process. Our core system does not geocode addresses automatically. The system has one field to enter the geocode in, rather than separate fields for the MSA, State, County, and Tract fields. Users must manually verify the information on the census website. Currently we have approximately 30,000 customer information profiles within our core system. Because we are in a rural area, many of our customers have a PO Box. In addition, we have approximately 3,000 customers with a PO Box or Rural Route that were established before the Patriot Act and so do not have a physical address because CIP was not required. Today we use a tickler system to house the physical address. This means the address isn't within defined fields that allow data to be easily extracted and formatted into Excel for upload and verification within the census website. To geocode, we will need to first fix this on our core by extracting the physical addresses then manually formatting the addresses into a spreadsheet. Once this is completed, the addresses would then be imported back into the core into defined fields. Once we have all physical addresses coded correctly, only then could we begin extracting the data to geocode by uploading spreadsheets.

My own experience with geocoding using the census website and spreadsheets is that many addresses do not come back with a "hit" when using the upload method. Therefore, those addresses will have to be manually input to obtain the correct geographic location. Looking up one record and then coding it individually takes about 10 minutes per record. This part of the process would add to the time and labor involved in geocoding our records.

We would be required to hire temporary staff to complete the project. We anticipate it could take at least two months with a cost of at least \$5,000 per person per month. We will also need to change our process and procedures for updating physical addresses, adding steps for geocoding all addresses and change of addresses going forward, with additional review for quality assurance purposes. While we have requested our core vendor provide us a means of automatically geocoding addresses, this is not something we anticipate having anytime soon.

#### QUALIFYING ACTIVITIES OUTSIDE ASSESSMENT AREA

The proposal indicates banks would be allowed to receive credit for qualifying activities outside their AA. However, there is no further explanation of what this means. The current regulation only allows banks to receive credit when they have served their own communities and then may only receive credit statewide for investment activity. Credit can also be given for an investment in any minority or women owned institution within the United States. There is no such information within this proposal. There needs to be further clarification on what activity and how much outside ones AA it can extend.

#### PERFORMANCE MEASUREMENTS

First Security Bank strongly supports the agencies' wish to establish an objective method of measurement and agrees that it is necessary to provide quantitative measurements that are opaque

and consistent, so financial institutions and regulatory agencies have fair and transparent means of determining performance and ratings. We appreciate the ability to measure the effectiveness of our CRA program at any time throughout the exam cycle and go into an evaluation with relative confidence that we will know how our overall performance will be graded. However, we have strong reservations with the performance measurements as they are proposed. This is a result of the aggressive timeframe in which the agencies wish to implement the changes, the lack of consensus among all three agencies, the inability to test our current performance against the proposed changes, and the lack of transparency with which the performance measurements were developed. It is difficult to provide meaningful feedback on the overall proposal without the ability to see how our current data would perform within the proposed requirements. So, we strongly encourage the agencies to review the proposed measurements along with feedback received from the comments and, in collaboration with the Federal Reserve, determine the best quantitative measurements that will be fair and consistent for financial institutions of all business models and asset sizes, while still fulfilling the original requirements of the regulation.

We believe the empirical benchmarks established warrant further study and explanation as we have no understanding of the data used to determine the measurements and we are unable to test our data against the proposal. The footnotes indicate that measurements were determined in part based on data collected via HMDA, CRA data reported from the current large banks, and credit reports. Many rural banks in areas that previously were in the intermediate-small bank category could fall into the large bank category. However, the measurements were determined without considering any type of data from rural banks because they are neither HMDA reporters nor CRA data reporters. We don't believe that the basis for determining the benchmarks adequately considers all bank sizes, but only those over \$1.284 billion and in urban areas.

#### DATA COLLECTION

First Security supports the agencies' wish to establish requirements for data collection, recordkeeping, and reporting requirements. But we have doubts about the ease of implementing the rules within the timeframe laid out in the proposal. We are unable to provide meaningful comments on the CRA evaluation measure and the distribution testing methods because of the vagueness of the proposal and our inability to test our own data. While the proposal explains how a financial institution will pass the test, it does not explain what type of demographic or peer information is used for comparative purposes, from where this information is obtained, or exactly what information is being provided. We also do not feel there is an adequate explanation for the "peer comparator." The proposal does not define how a peer is determined, if the bank would choose from actual peer testing data or if the regulators would provide blended peer numbers, or what the thresholds are for a peer. Peers are difficult to determine in rural areas because of the diversity of banks and their business models.

For example, every year we do our own peer analysis against similarly situated financial institutions of similar asset sizes using their last performance exam. We have found that completing these can be difficult for many reasons. While we don't do a direct comparison of products, we do review the performance exam to identify comparative data. We have found that even though asset sizes are similar, the assessment areas are very different. For example, we have 31 census tracts, including 2 moderate income. The best peers for comparison we've found in past years have similar asset sizes and are in rural non MSAs near us, but they have assessment areas consisting of: 12 census tracts with one moderate tract; 19 census tracts with no moderate tracts; 20 census tracts with no moderate tracts; 14 census tracts with no moderate tracts; and 8 census tracts with no moderate tracts.

We can't say that the proposed measurement methods are positive or negative because we don't have enough information to make that determination. We also don't have enough data for comparison purposes to banks of similar size to provide suggestions for possible improved methods. Therefore, we suggest that the agencies review the feedback they receive through this process and then provide more information and analysis. If suggestions are received that are better than what is proposed, or it is determined that the proposal is the best method of measurement, we suggest that an interagency proposal is revised with more supporting information and definitions allowing for time, so banks can perform their own testing. This allows everyone involved with CRA to test the proposed changes against past data to see how communities might be impacted, positively or negatively, and determine if the metrics are reasonable and achievable for the size of institutions, diverse locations, and business models.

#### REGULATORY BURDEN AND IMPLEMENTATION COST

While we don't take issue with the idea of collecting and maintaining data, we disagree with valuing the data and reporting it annually. It is unclear what the purpose of reporting annually would be for a financial institution that is on a three-year exam cycle. It is also very likely that what is reported will not be what is in the final performance evaluation because of differences of opinion between the financial institution and the examiner at the time of the actual review. We also believe financial institutions are committed to CRA and the increased data collection, recordkeeping, and reporting will not necessarily result in any benefit that outweighs the costs to the institution when those resources could be directed elsewhere.

We appreciate that the agencies recognize the changes will result in increased cost, but we believe that they underestimate the cost and compliance burden that these changes will create. Larger banks may have less cost or burdensome implementation because they may already have software and data collection processes in place today. But banks of our size and complexity will not. Even banks that might report CRA data annually are unlikely to have practices in place that will capture all data being requested. We are also not comfortable that vendors who provide CRA software are equipped to handle the proposed changes.

We are not sure that the agencies have adequately considered the cost of implementation on smaller banks that already have difficulty absorbing new compliance costs, especially in rural areas. We are neither HMDA nor CRA reporters and do not have any type of software or experience collecting and maintaining this type of data. The Compliance Officer, who is also the CRA Officer, collects and maintains our current CRA data on word documents, PDFs, and spreadsheets. A change like this requires either an additional employee or the purchase of new software. Research shows there are approximately six CRA tracking software programs. It is assumed most banks can't handle the reporting requirements with staffing alone and if they don't have CRA software already, they will have to purchase it. The cost can therefore be dictated by the industry, since financial institutions will not have a choice and the products available are limited. We also have no way of knowing if these vendors are equipped to handle an influx of new customers they are likely to face.

Alternatively, the cost to hire an additional staff member would also be high. The annual salary for an employee with benefits would be approximately \$50,000. In today's market in our area, personnel are limited, and we currently experience trouble filling open positions. We estimate it would take 6 weeks to 2 months to hire someone. The actual time to recruit, hire, and onboard would cost approximately one to one and a half weeks' worth of salary for a Human Resource



employee, or an additional \$1,000 to \$1,500. There would also be additional training cost that would go along with any new hire to our institution.

While the agencies recognize there will be one-time upfront costs, the proposed requirements will also add ongoing costs that the agencies have not considered in their cost analysis. We have evaluated the steps necessary to prepare our records for implementation and the limitations of our current system's capabilities. We do not believe it is possible to update our records for implementation without hiring temporary staff to assist. Once we are prepared to collect, analyze and report the data according to the requirements proposed, we will need to either hire permanent staff or purchase software, both of which would add significant cost. Because we do not know the capabilities of CRA software that is available today, it is impossible to predict what type of automation could occur or if software alone would be enough. Additional staff may still be required. However, under our current capabilities, automation of any sort is not possible. After evaluating proposal and implementation expectations, we are also not able to identify any way in which this regulation will result in a reduced cost over time, as is believed by the agencies.

The proposal indicates that reporting would be submitted via a form on the website to reduce compliance burden. But the proposal also indicates that information must be kept in machine readable format. Therefore, information will still have to be kept by other methods. We encourage the agencies to consider that the costs of implementation will be more burdensome than originally thought. Although we are now just under the small bank threshold, we anticipate being a large bank at the time of implementation and anticipate implementing large bank requirements if the proposed timeline is followed, thus, we expect a significant hardship in trying to follow the rules as proposed.

#### SUMMARY

While the proposed changes are sweeping, we are encouraged by the work the OCC and FDIC have done toward modernization and streamlining the Community Reinvestment Act. We feel there are many valuable improvements that will have positive impacts on communities and financial institutions. We believe that this is an opportunity to take an important and meaningful regulation and update it in a way that will improve the assistance we give while also providing financial institutions with objective methods for measuring their performance against benchmarks for increased CRA activity that effectively reaches underserved communities. We hope to see the timeframe for implementation paused so all relevant information can be considered. We urge the agencies to coordinate with the Federal Reserve and develop a proposal that includes the most positive aspects of this proposal, the Federal Reserve's proposal, and the feedback you receive. We look forward to seeing a revised proposal that we may provide additional comments on and welcome the opportunity to provide further feedback. Thank you for your consideration.

Sincerely,

A solid black rectangular redaction box covering the signature area.

Evelyn Schroeder, CRCM  
AVP Compliance  
First Security Bank & Trust  
eschroeder@1stsecuritybank.com