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May 6, 2005

Robert E Feldman, Executive Secretary
Attn – Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

RE: Proposed Changes to CRA - 12 CFR Part 345
RIN #3064-AC89

Dear Mr. Feldman,

Western Bank, a $373 million community bank with six branches located in Minneapolis/St Paul, welcomes this opportunity to provide comments on the proposal to amend regulations implementing the Community Reinvestment Act.

We are proud of our almost ninety year tradition of helping all the communities we serve to grow and prosper. We have always seen our success tied to the success of the communities we serve. Two of our branches are located in moderate-income census tracts and the other four branches are located in middle-income areas.

We strongly support the proposal to increase the asset size from $250 million to $1 billion for banks to be eligible for the small bank streamlined CRA examination. We also support the addition for banks between $250 million and $1 billion to add a new community development criterion to the small bank performance standards that would provide these institutions with a choice among community-based lending, investment and service activities.

The reason Western Bank has been outstanding for a very long time is part of our culture. An integral part of what we do as a community bank is providing loans, services and volunteerism in the communities we serve. A very large amount of time was spent to document what we do. Even though we were doing it for so many years; now we had to document our involvement and activities to prove what we do because we are now over the $250 million threshold. Each financial institution has their own area of expertise or strategic mission. We concur with the addition of a community development performance for criterion for banks with assets greater than $250 million and up to $ 1 billion as an additional component of the streamlined small bank standards.

Our comments will focus on the costs of regulatory burden, the ability to compete, and examination resource allocation.

Costs of regulatory burden

Under the current rules, Western Bank began CRA data collection in the year 2002. Many resources prior to data collection included creating/learning systems, procedures, controls, and training. The collection and reporting are complex requirements with many subtle nuances. The end product, just as with HMDA data and reporting, must be accurate. Even if proper training and data collection procedures are in place, there is also scrubbing and re-scrubbing of the data to ensure data quality. Large Bank CRA data collection and reporting comes at a significant cost; surely these dollars could be better spent adding new loans, products, and services to the local communities we serve.

Western Bank recently had our CRA compliance examination (March 2004), which was our first CRA exam moving from the small bank to the large bank arena. The combined compliance and CRA exam lasted three-and-a-half weeks. While we were able to give the examiners all the details, data, and documentation, it was a heavy burden on the compliance members of the bank. However, this was just the end result of all the work that went into to prepare for the small to large bank status change, data collection, community development loans, community development services, and community development investments. We would estimate that per year at least total of 485 hours is spent on collecting, ensuring data quality, and submitting the CRA data. Furthermore, there would be additional hours for training and tracking community development loans, services, and investments. This estimate also does not include maintaining and updating the CRA public file. Therefore the total time to comply with this regulation is much greater.

Ability to compete

Large institutions can more effectively manage the regulatory burden by developing processes and procedures and then spreading the development costs across many banks. Standard forms, centralized processing and strong internal controls that not only create additional efficiencies, but result in a uniform, high standard end product. Community banks, while being held by examiners to the same high standards for end product, do not share the luxury of spreading the costs and crating those same large bank efficiencies. For us, the implementing and ongoing costs for the regulatory burden come from just one source, our bottom line. Also, we do not have the luxury of having a dedicated staff to just compliance or just CRA and therefore the compliance resource come directly with staff with additional duties.

The Large Bank CRA Investment Test is another area where most community banks cannot compete. The investment test is clearly skewed towards truly large institutions. Three multi-state/multi-billion dollar banks dominate the Minneapolis/St Paul MSA (Wells Fargo, US Bank, and M&I). The challenges of competing with these large institutions for qualified investments in this market are daunting at best.

Examination resource allocation
In a press release dated August 3, 2004 the FDIC gave some background on the number of institutions in the categories of small bank and large bank. This press release indicates that while increasing the small institution size to $1 billion would initially result in a decrease in the percentage of institutions considered large, the percentage of the industry assets held by large institutions would decrease by 1.1% from when the $250 million level was adopted in 1995. The regulatory agencies would be reviewing approximately the same level of assets to ensure compliance with CRA. Also the regulatory agencies would have more time to review more institutions under the streamlined examination process as proposed.

In conclusion, the proposal to increase the large bank threshold to $1 billion is an example of legislators, regulators, financial institutions, and community groups working to forge a more effective, yet fair, approach to the goals of the Community Reinvestment Act. We support raising the threshold and creating the Intermediate Small Bank category. Streamlining the exam process with lending and community development makes sense as well as giving financial institutions the flexibility to assess and meet the needs of their community for community development (community development lending, investments, or services).

The CRA proposal (FIL-21-2005 dated 3/22/05) indicates that it would eliminate the CRA loan data collection and reporting of small business, small farm, and community development loans. We are in support of this as it would reduce regulatory burden somewhat. However, we continually monitor our progress and may want to continue collecting the CRA data to analyze internally. If we choose to collect CRA data in order to analyze our community lending activities internally (and not submit to the FFIEC), we would like this to not hurt us. If we collect the data, we do not want to be sited for errors in the data. Obviously we would try to have the data as accurate as possible, but may not go to the extreme lengths we currently do to scrub and re-scrub our data prior to submission to the FFIEC. Some guidance on this issue is recommended.

Thank you for the opportunity to share our views on this important proposal.

Sincerely,

CBauer

Cindy Bauer
Assistant Vice President - Loan Review, Compliance & CRA Officer