KBA

Kansas Bankers Association, P.O. Box 4407, Topeka, Kansas 66604

May 4, 2005

Office of the Comptroller of the Currency
Attn: Docket No. 05-04

Federal Deposit Insurance Corporation
Attn: Comments - 12 CFR Part 345 – RIN 3064-AC89

Federal Reserve System
Attn: Docket No. R-1225

Re: Community Reinvestment Act Regulations Proposed Revisions

Federal Banking Regulatory Agencies:

Thank you for the opportunity to offer comments on the proposed revisions to the Community Reinvestment Act (CRA). As a non-profit trade organization having 356 of the 359 Kansas banks as its members, the Kansas Bankers Association represents a diverse group in terms of size, representing banks with over $2.5 billion in total assets to the smallest bank in Kansas with $2.5 million in total assets. The comments that follow will hopefully provide some insight as changes to the regulation are contemplated.

Small institution definition. We support the proposed changes to the definition of "small institution" that increase the asset threshold from $250 million to $1 billion and that eliminate any consideration of whether the small institution is owned by a holding company. According to our calculations, implementation of this change would affect 29 of the 359 Kansas banks. There is no question but that the regulatory burden on smaller banks is exponentially greater and still growing as we assist banks in complying with the USA PATRIOT Act, the FACT Act and a host of recently issued guidance on issues including providing bank services to money transmitters and CIP'ing other customers.

Our data tells us that the banks with $1 billion or less average 34.7 full-time employees. Banks, like other employers, find that their largest expense internally is their employees, i.e., the cost of salary and benefits to attract and maintain good people. It is not within the budget of many of these smaller institutions to hire a compliance officer to do nothing but compliance. Many of these banks share the duties of compliance among various officers of the bank. It would be so much more beneficial for the bank and for the community for these employees to be able to focus on meeting the credit and service needs of the community, rather than focusing on the data collection required under the large bank examination procedures.

We also strongly support indexing the size thresholds for both the small bank and the intermediate small bank annually, based on the CPI, as well as the proposal to not consider whether a small institution is a part of a holding company. These institutions operate quite independently of the holding company. Every bank is evaluated internally on its own merits and must pass the muster of its owners' projections and expectations independently of other units in the holding company. It only makes sense that the regulation would treat them the same way.

Community Development Criteria. In addition to the current streamlined criterion applicable to all small banks, the proposal would set forth "community development criterion" that would be applicable to those banks with assets between $250 million and $1 billion. We would first urge a reconsideration of the threshold of this new "intermediate" small bank examination criteria. Once again, we look to our data and find that banks with $500 million or less in total assets average only 26 full-time employees. Many of these banks are in communities with a population of less than 5,000. (Nearly 70% of **all** Kansas banks are located in towns with a population of less than 5,000.) The fact that these communities are alive and surviving (some, thriving) is its own testament to the activities of the bank. We believe the current small bank examination is more than sufficient to gauge the success in its community for banks of $500 million or less.

As we understand the proposal, there is a lot of flexibility built into the "community development" criterion versus the current large bank test, however we are concerned that there will be a separate test for "community development" that would be weighted **equally** with small bank lending test. Our concern is that this does not take into consideration the variety in needs and the different challenges that face communities and their banks around the country.

It is these "tweener" institutions - these banks that are in the $500 million to $1 billion range – that need flexibility and recognition of the range of challenges they face. In the more urban areas, they compete for qualified investments and loans with larger banks; in many smaller communities they face low lending demand in an aging demography and a population shift to urban areas. There is a huge difference in supply and demand among these banks which has required some of them to re-examine their existing philosophy. In recognition of the various challenges facing these communities and banks, we would strongly urge that the proposal use the community development criterion only as a factor in determining the overall rating, thereby maintaining the status of the bank's record of meeting the credit needs of its community.

Rural areas. We support the expansion of "community development activity" to include efforts in rural areas. As you might guess, there are many, many banks in Kansas that serve rural customers. Many of these rural customers represent a way of life that we believe is important to preserve, as well as being important to our nation's food supply. These customers may not technically live in a "community", but they certainly are a part of the greater community and are the reason many communities still survive. It is vitally important that banks' efforts to serve, revitalize or stabilize these areas count toward the CRA rating.

The proposal requests comment on whether a definition of "rural" would be helpful. There are many examples of laws that have tried to define this term. Some would say that it needs no definition as "you know it when you see it". Perhaps keeping the definition simple would be the most beneficial. We would support a definition that includes those counties designated "nonmetropolitan" by OMB.

In conclusion, it is safe to say that the industry as represented by our membership, believes that too much time is still spent in efforts to prove to the examiners that the bank is doing what it opened its doors to do – lend money and provide services to the community. While the industry recognizes that this would in no way diminish the obligation of small institutions to help meet the credit needs of their communities, the proposal to expand the small bank institution definition is definitely needed and evidence of movement in the right direction. Thank you for your time and attention to this most important matter.

Sincerely,

Charles A. Stones
President

Kathleen Taylor Olsen
Associate General Counsel