University Bank

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August 4, 2022

James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Attention: Comments RIN 3064–AF81

Re: Community Reinvestment Act Joint May 5, 2022 Notice of Proposed Rulemaking

Dear Mr. Sheesley:

University Bank is a $600 million FDIC-regulated community bank headquartered in Ann Arbor, Michigan serving Washtenaw County, Michigan. Our principal lines of business involve traditional lending activities, principally focused on residential lending within the Bank's market area and totaling over 70% of our loan portfolio.

In addition to in-house residential lending activities, University Bank also owns controlling interest in two subsidiary entities engaged in robust mortgage origination activities. University Lending Group is primarily a conventional retail lender and originates loans under most government supported programs such as FHA, VA, RD, and other State bond programs that support first home buyers and others. UIF provides non-traditional faith-based home financing products to clients with religious beliefs that prohibit them from engaging in "interest-based" lending programs. These subsidiaries combined have 20+ Loan Production Offices located in 11 States.

Based on the unique business model of University Bank and its affiliated entities, the Bank elected to be evaluated under a CRA Strategic Plan, which was approved by the FDIC in December 2021.

University Bank appreciates the collective work of the federal bank regulatory agencies in drafting the joint proposal to strengthen and modernize regulations implementing the Community Reinvestment Act (CRA). We also appreciate the opportunity to provide feedback on the proposed CRA rule as we remain committed to the goals of CRA and to meet the credit and financial services needs of our customers and communities.

Based on our perspective as an intermediate small community bank with a nationwide lending footprint, we offer the following comments on the CRA Notice of Proposed Rulemaking and answers to questions

Application of Outside Retail Lending Areas
The proposed rule provides that the lending performance for an intermediate bank, such as University Bank, will be evaluated in "outside retail lending areas" (the nationwide area outside the bank's facility-based assessment area) if the bank does more than 50 percent of its lending outside of its facility-based assessment area. The agencies propose evaluating an intermediate bank's retail lending performance in an outside retail lending area on an aggregate basis, rather than in areas where there are concentrations of lending, such as the 100-home mortgage loan origination threshold, which applies to a retail lending assessment area.

Without limiting the lending performance evaluation to specific areas or lending concentrations, every loan outside of the facility-based assessment area would establish an outside retail lending area in which the bank would be assessed. This outcome would add complexity and unduly burden the bank in a self-assessment of its CRA performance and in its CRA examination. We urge the agencies to reconsider this proposed approach and its application to intermediate banks, as institutions of this size do not have the staff or the expertise to conduct a lending evaluation on all loans outside our facility-based assessment area.

Question 48
This question asks if all banks should have the option to have community development activities outside of facility-based assessment areas. We maintain offices and employees throughout our state and nationwide. Given this reach, we support the opportunity to extend community development beyond a facility-based assessment area as it would provide greater flexibility and opportunity to engage with areas that may have unmet community development needs.

Questions 52
This question seeks feedback on the agencies' proposal to include the activities of a bank's operating subsidiaries as part of a bank's CRA evaluation. We encourage the agencies consider including these activities to the extent the subsidiary has engaged in it and/or the market for enough time to reach mature and/or efficient operation. For example, we do not believe it would be beneficial to include activities that are within two years of launching the activity or product as the activity may not yet be fully efficient and its inclusion could unfavorably and unfairly affect the Bank's CRA rating. A rule of thumb in retail sales operations is that maturity for products and new locations is not typically achieved prior to two years.

Question 54
When a bank chooses to have the agencies consider retail loans within a retail loan category made or purchased by a bank affiliate in a particular assessment area, this question asks whether the agency should consider all retail loans within that category made by all affiliates within the particular assessment area. Similar to Question 52, we encourage the agencies to consider loan activity engaged in by another affiliate only if it is at mature and/or efficient operational capacity.

Question 56
Related to the retail lending test, this question asks whether the agencies should aggregate closed-end home mortgage loans of all purposes or whether they should evaluate loans with different

purposes separately given that the factors driving demand for home purchase, home refinance, and other purpose home loans vary over time and meet different credit needs. We strongly support separately evaluating loans with different purposes. In our experience, the percentages of loan types may differ widely depending on market conditions. For example, in 2020 and 2021, our bank saw a huge surge in home refinance loans due to low interest rates, whereas in 2022, refinance loans are a small percentage compared to purchase loans, due to rising rates. Also, for the reasons alluded to in the question, different loan types meet different credit needs and there are often differences in the areas or incomes served from product to product.

Questions 64 and 65

These questions seek feedback on whether retail loan purchases should be treated as equivalent to loan originations and whether any additional factors should be placed on the consideration of purchased loans. We support the continued treatment of purchased loans as equivalent to originated loans, on the condition they be held for a minimum time period and if sold sooner than the minimum time, it be negatively reflected on a subsequent CRA exam.

Question 78

We support proposed benchmarks including the use of low-income and moderate-income family counts for borrower distribution of home mortgage lending.

Question 84

We support the agencies' use of loan count in conjunction with or in place of dollar volumes in weighting product line conclusions to determine the overall Retail Lending Test conclusion in an assessment area.

Question 88

This question seeks feedback on the tailored benchmark method for setting performance ranges for outside retail lending areas. As an intermediate bank subject to the outside retail lending assessment area, we believe the tailored benchmark method may set appropriate performance standards, but this method is overly complex and difficult to apply. We encourage the agencies to provide an alternative uniform benchmark for intermediate banks due to the limited resources, staffing, and capacity that exists at most intermediate banks, including our own.

Question 134

This question asks whether the strategic plan option should continue to be available for all banks or whether the proposed changes to assessment areas and metrics reduce the need for the strategic plan option. As a bank that is currently under a CRA strategic plan and with our nationwide lending, we are confused about how the outside retail lending area will be used in a lending assessment and anticipate this will be difficult for us to run our own self assessments. We also expect any self-assessment we are able to conduct will be labor-intensive and expensive. Therefore, we want to have the continued option of the CRA strategic plan so that we are able to tailor a plan that is reflective of our nationwide lending as an intermediate small community bank. Also, if there were no option for a CRA strategic plan, due to the regulatory complexities of having lending subsidiaries and how that impacts the inside outside ratio test, it would take us up to a year to unwind our current structure, as it took us that long to put the current structure into place after receiving approval for our current CRA strategic plan, so a transition period would be necessary.

Question 178
This question seeks feedback on the proposed effective date and applicability of dates for the various provisions of the proposed rule. Given the breadth of the changes the proposed rule contains and the complexity of the retail lending test for those banks that have lending outside of their facility-based assessment area, we advocate for a longer effective date than the proposed 12-months for the new requirements. We advocate an effective date of 2 years from the final rule. This would allow banks additional time for receiving required regulatory approvals, and for training and education to understand the nuances of these changes and to better prepared for them.

Thank you for the opportunity to provide comments. Please feel free to reach out to me with any questions.

Sincerely,

[redacted]

Veronica Sellers
EVP & Chief Compliance Officer