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October 4, 2001

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, D.C. 20552

Re: Docket No. 2001-49

Dear Sirs:

As a small institution examined under the streamlined test for compliance with Community Reinvestment Act requirements, we believe that the reforms adopted in 1995 have achieved the goal of focusing enforcement on objective, performance-based assessment standards that minimize the compliance burden while stimulating improved performance. We also believe that just about every regulated financial institution is sensitive to and makes a sincere effort to meet the credit needs of their communities, including low- and moderate-income neighborhoods.

Small institutions, however, may not always have market penetration of low- and moderate-income geographies, regardless of their best efforts, because of competitive and other factors. As an example, we originate less than one-tenth of one percent of the mortgage loans closed in our area. In the absence of a branch network and substantial advertising support, we are largely dependent upon referrals from community-based housing organizations whose Homebuyer Training Programs we support. We offer Special Loan Programs in partnerships with several organizations, with home mortgage loans at below-market rates, with concessionary terms, closing cost assistance, and flexible underwriting standards to graduates of their training programs. It is very difficult for us to generate applications from low- and moderate-incomes, and we have been disappointed that the funds we have made available are not being utilized despite our best efforts, through repeated contacts with community organizations.

We therefore believe that there should be more emphasis on the quality of the CRA efforts being made, rather than only their quantity. Simply looking at the numbers

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posted in the lending test does not give a clear picture of an institution's commitment to its CRA program, and its initiatives and activities, regardless of the actual results from HMDA reports. We are not advocating a return to the pre-1995 CRA, where institutions sought to meet their CRA obligations through donations and other activities rather than lending, but we do believe that the performance evaluation must be made in the context of what the institution is doing to seek and promote lending in low- and moderate-income neighborhoods, rather than merely how successful it has been in penetrating those areas.

While not specifically addressed in the Small Institutions request for comment, in the discussion of the lending test for Large Retail Institutions, one of the issues raised was whether loan purchases should receive equal consideration with loan originations, as is presently the case. We believe loan purchases should receive the same consideration because they do in fact free up capital for the selling institutions to make more affordable housing loans. We have purchased affordable housing loans made by a local commercial bank and its community development corporation. One of the community benefits of this arrangement, in which we are providing a local secondary market for them, is that the bank in question has all of its servicing done by a firm in another state, while we are a local portfolio lender. The result is that for the loans we purchase, the homeowners can deal directly with a real person right here, rather than having to communicate with a computer voice in an eastern seaboard city. Those borrowers are very happy to have their loan held and serviced in New Orleans, where they can call or come see us regarding any problems regarding taxes, insurance or other concerns.

We agree that purchase of loans should not be a substitute for originations without evidence of substantial and sincere efforts to originate affordable housing loans, as discussed above. We have relied upon loan purchases to supplement originations in the absence of referrals from community organizations through our Special Loan Programs, but we would certainly prefer to originate more loans whenever it is possible to do so.

We agree that there is a legitimate concern, as stated in the Notice, that "equal consideration may prompt institutions to buy and sell the same loans repeatedly to influence their CRA ratings." This can be addressed by simply setting some limit on the number of times that the same loan can be counted by successive holders. I raised this issue with a regulatory agency several years ago, when I asked how many institutions can claim the same CRA loan, and was told that this is a loophole, and that there is presently no limit on the number of times the same loan can be "flipped" from one institution to another. I think that the best way to close this loophole would be to provide that a loan can be entered on the Loan Application Register, included on the Home Mortgage Disclosure Act Report, and counted for CRA by (1) the institution that originates it, and (2) by the first institution that purchases it, but that further "flips" will not count for purchases of whole loans, but only as investments. While this may appear to benefit

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Large Retail Institutions for the investment test, it takes such flips out of the lending test. Regardless of how this question is addressed, we agree that a third, fourth or fifth holder should not get credit for a CRA loan under these circumstances.

We think it is important to recognize that the lender who takes the risk should receive CRA credit for doing so. An institution that originates to sell in the secondary market is receiving fees for origination and/or servicing without taking any risk; a local portfolio institution that buys that affordable housing loan is the lender that is actually accepting the risk. So long as there is no abuse through repeated "flips," we believe that purchased loans should have equal standing with originations.

We also believe that the streamlined examination process for Small Institutions should be revised to define a "small institution" as one with total assets of less than \$ 500 million, and that there should be a further demarcation that would provide an even more simplified procedure for institutions with total assets less than \$ 100 million. We would propose a "small institution exemption" where such institutions are in metropolitan statistical areas larger than a specific size, such as 500,000 people. This would insure that small institutions in small communities, without major cities in their MSAs, would meet their CRA obligations, while recognizing that small institutions in large MSAs may not be positioned to do so because of competition and other factors. The examination process could still evaluate the commitment to CRA of small institutions in large urban areas on the basis of a subjective review of their CRA Public File or through other appropriate means. Such an approach would differentiate between situations in which a \$ 100 million institution might be the only bank or thrift in its small community, or one of only several in its county, whereas a \$ 100 million institution in an urban MSA may be one of only 30 or 40 banking institutions, plus 20 or 30 mortgage companies, in a market dominated by several multi-billion dollar financial institutions. There should be some understanding of an institution's, size, resources, and the complexity of its operations in relation to its local market in evaluating its results.

The Small Institution test provides that the Agencies will consider a smaller institution's use of the same types of qualified investments and services that provide a basis for evaluating larger institutions; however a good record in providing qualified investments and community development services can help increase a smaller institution's satisfactory rating to an outstanding rating, but may not help increase a needs-to-improve rating to a satisfactory rating. Again, we believe that there should be some relationship between the size, resources, and complexity of operations of a smaller institution to its market area, and a recognition that a small institution in a very large MSA should receive credit for its community development activities to achieve a

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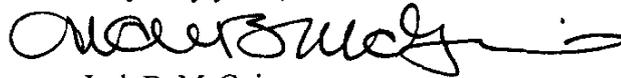
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satisfactory rating. We therefore agree that the current small institution assessment method does not provide for adequate consideration of non-lending-related investments or community development services.

We appreciate having this opportunity to submit our comments.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jack B. McGuire", with a long horizontal flourish extending to the right.

Jack B. McGuire

Vice-President

Union Savings and Loan Association

JBMcG:hs