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Wachovia Corporation
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Charlotte, North Carolina 28288

October 17, 2001

DELIVERED BY ELECTRONIC AND REGULAR MAIL

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Re: Docket No. R-1112

Communications Division
Public Information Room -- Mail-stop 1-5
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219
Attn: Docket No. 01-16

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

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attn: Docket No. 2001-49

Re: Joint Advanced Notice of Proposed Rulemaking ("ANPR") Regarding the
Community Reinvestment Act ("CRA") Regulations

Dear Sirs/Madams:

This letter is submitted on behalf of Wachovia Corporation and its subsidiary companies, including Wachovia Bank, N.A.; First Union National Bank; First Union National Bank of Delaware; First Union Home Equity Bank, N.A.; First Union Direct Bank, N.A.; The

First National Bank of Atlanta-Delaware dba Wachovia Bank Card Services; Atlantic Savings Bank, FSB; Republic Security Financial Corporation and Republic Security Bank, (hereinafter collectively referred to as "Wachovia").¹ Wachovia appreciates the opportunity to comment on this joint review of the CRA Regulations.

I. GENERAL COMMENTS

A. No Major Revisions Are Needed

In 1993, the Federal Reserve Board of Governors, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and Office of Thrift Supervision (collectively, "the Agencies") jointly began a reform of the CRA regulations that resulted in final rules which were issued in 1995. Subsequent to that release, the Agencies have issued new examiner guidelines and several Q & A's. Goals of these issuances were (1) to clarify how institutions would be evaluated, under a system that (2) focused on objective, CRA performance-based standards, while (3) minimizing compliance burden and (4) stimulating performance. The Agencies now are fulfilling a commitment to assess the 1995 regulations.

Wachovia commends the Agencies' substantial efforts to meet the criteria above. The Agencies have developed an effective process and balanced the needs of many and diverse stakeholders in the CRA process. We believe that, on the whole, the Agencies' reform of the regulations is working well, and that the regulations do not need substantial changes. We think that some procedural and other improvements can be made (see Specific Suggestions below) but that most of these can be handled through more Q & A's and/or examiner guidance.

¹ Wachovia Corporation is an interstate financial holding company with headquarters in Charlotte, N.C., serving regional, national and international markets. Its member companies offer personal, corporate, trust and institutional financial services through over 2300 financial centers along the East Coast in 11 states (Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, North Carolina, South Carolina, Georgia and Florida) and Washington, D.C. and through over 600 retail brokerage offices in 47 states. Wachovia has total assets of \$329 billion, deposits of \$181 billion, assets under management of \$221 billion and mutual fund assets of \$101 billion.

B. Guiding Principles for any Changes

Wachovia urges that, as the Agencies proceed with their review, any contemplated revisions should further the goals of:

- Flexibility and sustainability: Institutions must be able to develop programs and products that meet local credit needs but are also compatible with the institutions' short- and long-term business models and strategies.
- Consistency: It is important that any changes in definitions and treatment of specific issues are executed consistently across the Agencies and among examiners. To ensure integrity in the examination process, Wachovia recommends that Agencies compare their individual regulations, guidance, training materials and institutions' final Performance Evaluations ("PE's"), because issues are sometimes treated differently among Agencies. For example, the Office of Thrift Supervision treats letters of credit as loans, while other Agencies do not. Across Agencies, PE's appear to reflect wide differences in the Service Test evaluation with regard to qualified activities.
- Reduced regulatory burden and cost: Any changes, but particularly those pertaining to information collection and reporting, carry costs for automation, training, review and the like. These costs are on-going and ultimately are passed on to the consumer.

II. SPECIFIC SUGGESTIONS

A. Performance Context

The performance context was an important improvement of the 1995 regulatory changes. It provides a valuable method for articulating the differences in institutions' business models and prevents a "one size fits all" approach to the examination process. Wachovia believes the application of the performance context can be improved, however, and recommends that the Agencies consider providing more guidance for institutions on ways to present their context to examiners, as well as methods for examiners to evaluate the context. Guidance should include understanding business models and strategies, identifying a business niche, emerging versus mature markets, high-cost and/or high-risk markets, market penetration versus demographics and pitfalls of comparison to competitors.

With regard to applying the performance context to the lending test, it is important that the Agencies realize that market penetration almost always will be less than a market's demographics because of broader economic and social dynamics. This is important because when regulators use the demographics as a benchmark, an institution will almost always appear to fall short in its market penetration, even though its penetration may be very strong.

We also believe that there is a need for clarity regarding how much banks should do regarding investments. There is mounting pressure for banks to invest in riskier initiatives that do not have track records and/or returns commensurate with the risk. This is driven in part because "innovative and creative" are not always applied consistently. As those terms are currently applied, initiatives are sometimes not considered to be innovative and creative solely because they have been done before. Nothing in the regulation or subsequent guidance supports such an interpretation. Moreover, this discourages institutions from repeating worthwhile projects and can promote change without any apparent benefit.

B. Assessment Areas

Wachovia recommends maintaining the current definition assessment areas as those areas in which an institution has branches. This approach is logical and consistent with the regulations and it is in these areas that banks will have the presence and resources to serve low-and moderate-income communities.

C. Lending Test Issues

- 1. Originations versus Purchases --** Wachovia recommends treating purchased loans in the same manner as affiliate loans currently are treated for examination purposes. Under such an approach, the institution would be allowed the choice of including or excluding purchased loans. This approach would allow flexibility for different banks' business strategies while at the same time recognizing that purchases provide an important

secondary market and can free up capital for additional loans that help meet community credit needs.

2. **Predatory Lending** -- Fair lending, compliance and safety and soundness examinations already provide effective vehicles for determining whether institutions are engaged in illegal, abusive or unsound lending practices. There is no need to duplicate these efforts with a change to the CRA regulation itself.
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D. Investment Test

Wachovia recommends modifying the test to give institutions credit for the amount of all outstanding investments at each CRA examination. Equity is a form of permanent and often nontransferable capital that is not replenished as regularly as loans are. In addition, investments may have long terms that cross more than one examination period. As the regulations are currently interpreted, Community Development investments are counted for an exam period only. Community Development investments should be counted as part of a long-term commitment to an institution's overall community development efforts.

E. Service Test

It is important that Community Development Service activity is more broadly defined. Certain activities often are integral parts of lending and investment programs. These include activities such as financial education; credit, homeownership and similar counseling; technical assistance provided through presence on boards and similar positions; job training and other such services. As described above, the application of the regulation is uneven. The Agencies should eliminate the test or more clearly define such eligible activities.

F. Community Development

The Agencies should consider inclusion of projects that stabilize or restore whole communities, without regard to whether the projects are specifically targeted to low- and moderate-income areas. The Agencies already have taken this approach to restore areas of New York devastated by the recent terrorist attacks there, and we applaud and honor that action. We recommend this approach be applied more broadly.

Second, institutions should be given the option of including loans of less than \$1 million as either community development loans or as small business loans, as long as they are not "double counted." This would recognize that some of the most innovative, creative and meaningful loans to communities are in this less-than-\$1 million range.

G. Affiliate Activities

Wachovia recommends that the current option for banks to include affiliates' activities remain unchanged. This approach recognizes that institutions are able to serve their communities through various channels and business units. It also reflects the Agencies' understanding of the increased scope and complexity of many institutions.

H. Data Collection Definitions

Small business definitions should be expanded to include bond enhancements, leases and letters of credit. These facilities are extensions of credit and including them is consistent with the intent of the regulations.

I. Interpretive Letters and Q & A

The usefulness of interpretive letters and the Q&A would be enhanced if they were organized by subject matter in an appendix behind the regulation. This already is done for other regulations and provides for easy access to needed information. While these are not part of the regulation itself, this is an appropriate time to address this technical issue.

We appreciate the opportunity to provide comments on these important regulations. We look forward to working with the Agencies to ensure regulations that effectively implement the intent of the Community Reinvestment Act.

Sincerely,



Jane N. Henderson
Director, Community Development Group

cc: Bob Andersen, Deputy General Counsel
Michael Watkins, Deputy General Counsel
Bill Langley, Chief Compliance Officer