

September 4, 2002

Ms. Lynn Bedard
Community Affairs Liaison
Office of Thrift Supervision
1475 Peachtree Street, N.E.
Atlanta, GA 30309

Dear Ms. Bedard:

I am writing from the Woodstock Institute in Chicago to comment on the CRA exam of State Farm Bank that is currently being conducted by your agency. As the financial industry changes, we feel that it is important that the implementation of CRA reflect that changing reality. All federally-insured banks must remain responsive to low-income people and communities. We are especially concerned about the continued anachronism of State Farm's assessment area.

In June of 1998, Woodstock Institute testified before the Office of Thrift Supervision upon State Farm's announcement that the company wished to open a de novo federal savings bank. At that time we noted that CRA asserts that regulated financial institutions have a continuing and affirmative obligation to meet the credit needs of their communities, including low- and moderate-income areas. CRA further provides that those institutions establish a service area to delineate the communities in which they have that obligation. Yet State Farm Bank planned to continue to operate under an assessment area limited to Bloomington-Normal, IL.

The Woodstock Institute argued in testimony before your agency on June 3, 1998, that State Farm's insurance agents were essentially branches, that State Farm would reach other customers electronically and through the mail, and that the CRA regulations state that assessment areas include the geographies in which a savings association had originated or purchased a substantial portion of its loans.

All that has changed since 1998 is that the anachronism of State Farm's assessment area has become more glaring. State Farm Bank has already grown into a fairly large institution, with deposits of \$2.4 billion and total assets of \$3 billion. The Bank is currently operating in 48 states and plans to utilize up to 16,000 of its insurance agents to sell bank products. In consequence, as part of the current CRA examination the Bank should

amend its assessment area in one of two ways in order to follow the letter as well as the spirit of CRA. State Farm Bank could expand its assessment area to include the entire nation, considering that is where the bank does business. Or, as the Institute has suggested in previous correspondence to federal bank regulators, the Bank could delineate assessment areas not only where it has its main office, but also where it takes a significant portion of its deposits or makes a significant portion of its loans. State Farm Bank should include the following in its definition of its assessment area:

- (a) MSAs or counties where it has branches and ATMs
- (b) and any MSA or non-metro county where it has originated a significant portion of its loans (i.e. 0.5%)
- (c) and any MSA or non-metro county where it has originated a significant portion of the total loans made in those geographies in the most recent year (i.e., 0.5%)

State Farm Bank has a customer base that is widely spread geographically. If the regulators find that the Bank's service area does not fall within the parameters of (b) and (c) above, the bank's national aggregate market share of low- and moderate-income customers (for all product lines) should be compared to its national aggregate market share of middle- and upper-income customers. This market share ratio should then be compared to the national ratio of such households during the CRA exam.

In partial response to Woodstock's criticisms, State Farm acknowledged and made some commitments to broader CRA responsibilities in 1998 and these commitments should be part of the context of the current CRA examination. In a letter to the Woodstock Institute of May 5, 1998 copied to OTS, CEO Stanley Ommen wrote, "As we have acknowledged in previous discussions, filings and letters, the Savings Bank is committed to meeting the needs of low- and moderate-income persons outside of its assessment area where the Savings Bank generates significant business. This commitment is in keeping with the letter and spirit of the CRA and the Savings Bank's obligations thereunder" (emphasis added). In a letter of November 4, 1998 to Mr. Timothy Burniston, Director, Compliance Policy, OTS, Mr. Ommen wrote, "SFBS takes its obligations under the CRA very seriously, both in its designated assessment area and in those areas in which SFBS will ultimately generate loans and deposits. Therefore, SFBS's commitments to CRA will be implemented in a way that recognizes not only its commitment to its assessment area, but also its duty to be responsive to all communities in which it markets its products and services."

In light of the fundamental inadequacy of State Farm's assessment area and in light of these commitments to areas in which the company generates significant business, we believe that the OTS should pay careful attention to the Bank's community reinvestment record throughout the states in which it operates.

The Institute has analyzed State Farm Bank's 2000 HMDA data for the Central (CE) region and North Atlantic (NA) region. The CE region consists of Illinois, Indiana, Kentucky, Michigan, Ohio and Wisconsin while the NA region consists of Alabama, Florida, Georgia and Mississippi. The following analysis of State Farm's lending in the year 2000 shows an extremely poor performance. (We asked State Farm to send us provisional 2001 data and the Bank did send the Institute some HMDA data. However, the data were presented in paper format, with loans listed individually; no aggregate information was given. Woodstock therefore could not realistically analyze these data.)

The Institute utilizes a market share ratio approach when describing a bank's lending performance. For example, if in a particular region a bank has 1% of the market of loans to low- and moderate-income (LMI) people and a market share of 1% of middle- and upper-income borrowers (MUI)-- with LMI lending as the numerator and MUI lending as the denominator--the bank's market share ratio would be 1. In our view, a market share of 1 or more suggests the financial institution is making roughly similar efforts in both groups of communities. We use the same market share approach to gauge lending to minority communities.

State Farm Bank did not make any loans in the NA region in 2000. In the CE region, the Bank did not make a lot of loans, but a snapshot of whom those loans went to is instructive. Importantly, the bank only made refinance and conventional home purchase loans. It did not make a single multifamily, home improvement or government-backed purchase loan in the region. While the bank's market share ratios are fairly decent for the region along income lines, the bank's lending performance to minorities is a cause for serious concern. State Farm's black/white market share ratios for both conventional purchase and refinance lending is only 0.50. This means the bank is only making a fraction of the effort in lending towards blacks as it is in making loans to whites. These data raise major fair lending issues. We are also very concerned about this important institution's poor performance in areas suffering from predatory mortgage lending. The absence of prime lenders creates a grossly inefficient market in minority communities and

increases the chance that borrowers with good credit will succumb to financially devastating subprime loans.

The Bank's performance in its narrowly defined assessment area is also seriously inadequate. Woodstock analyzed the bank's performance in the Bloomington-Normal, Illinois MSA, and found that State Farm is making almost no effort to lend to low and moderate-income people in its assessment area. The Bank did not make a single loan to a low-income person in its assessment area in 2000 and made few loans to moderate-income borrowers. The bank's LMI-MUI market share ratio for home purchase loans is only 0.55 in the Bloomington-Normal MSA, while its LMI-MUI market share ratio for refinance loans is a dismal 0.10. This means the bank's efforts in offering refinance loans to moderate-income people in its own assessment area are appallingly weak compared to its marketing efforts to upper-income people. The Institute rarely sees market share ratios this low.

Moreover, during its last CRA exam, dated March 20,2000, State Farm Bank received Low Satisfactory ratings on all three component tests. Its sole CRA investment consisted of an investment in a mortgage-backed security loan pool. The Bank did not make any grants to or investments in nonprofit agencies. It appears from information given to us by State Farm Bank in the form of their CRA "Sunshine" disclosures that the Bank has made progress in making qualified grants and investments since the last exam. It is difficult for us to discern which funds are grants vs. investments, however, or to know which investments would actually be included in a CRA exam as qualified investments. State Farm should be making significant and varied CRA investments considering the wide range of opportunities that a Bank with this customer scope possesses. On its website, State Farm Bank asserts that agents are available to help customers obtain bank accounts or other bank products in Washington, DC and all 50 states with the exceptions of Massachusetts and Rhode Island. Thus, the Bank should be adequately serving low and moderate-income people in all of those locations. Yet the bank was only performing in a "low-satisfactory" manner in its narrowly-drawn assessment area in regards to retail bank services during its last CRA examination.

The above data analysis, shows a very poor lending performance in the Bank's assessment area as well as in a larger, 10-state region. In addition the bank has a poor history of providing CRA-qualified investments and services. In consequence, the bank should be downgraded from a

satisfactory CRA rating to a needs to improve rating. State Farm Bank should also be required to expand its assessment area as described above. Moreover, OTS examiners should examine State Farm based on an assessment area that is more consistent with the Bank's actual markets.

Thank you for the opportunity to comment on this exam. Please contact me if you have any questions or require further information.

Sincerely,
Malcolm Bush
President

cc: Ms. Bobbie Salgado, State Farm Bank