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MEMORANDUM

TO: Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision, Treasury – VIA INTERNET EMAIL

FROM: Frank J. Klaus, Coastal Securities, L.P., Houston, Texas

DATE: December 19, 2001

SUBJECT: Joint advance notice of proposed rulemaking; Federal Register, Vol. 68, No. 139, July 19, 2001

In connection with the subject ANPR, I have been advised that you might still consider comments on the topic of proper CRA treatment of the purchase of SBA guaranteed 7(a) loans and pools (“SBA 7 (a) Securities”) by banks and thrifts even though the public comment period ended on October 17, 2001. To the extent that I have been correctly advised, I respectfully submit the following for your consideration.

US banks – particularly community banks – are the most active purchasers of SBA 7(a) Securities in the secondary market. As a leading national market maker in SBA 7(a) Securities, Coastal Securities is regularly asked by prospective bank customers whether their purchase of such securities would be “CRA positive”. In other words, the banks want to know what CRA benefit their institutions would receive in connection with their purchase of SBA 7(a) Securities. Just as regularly, we hear from current bank customers that the answer to this question depends entirely on which regulatory examiner is making the judgment. We can find no consistent response to the question.

I have been advised that other SBA securities (SBDCs, SBICs, SBA venture capital investments) routinely and consistently receive an “automatic presumed benefit” from bank regulators and their examiners for CRA purposes. In the absence of a reasonable basis for doing so, it is not logical to disallow such an automatic presumed benefit for SBA 7(a) Securities. I am aware of no such reasonable basis and therefore encourage you to take the necessary steps to ensure that banks and thrifts purchasing SBA 7(a) Securities receive an automatic presumed CRA benefit for such activity. Taking such steps would achieve two important results. First, it would enhance consistency among regulators and their examiners and second, it would create additional incentive to banks to acquire SBA 7(a) Securities. The latter will increase the delivery of needed capital to US small business, the acknowledged engine of a strong economy in the United States.

I appreciate the opportunity to comment on this important issue.