LA04-418

MICHAEL G. OXLEY, OH, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

BARNEY FRANK, MA, RANKING MEMBER

September 22, 2004

The Honorable Donald Powell
Chairman
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429

Dear Chairman Powell:

The Community Reinvestment Act (CRA) was enacted to encourage banks to make loans to all parts of the communities where they collect deposits, including low- and moderate- income neighborhoods. We commend the FDIC's proposal (69 Fed. Reg. 51,611 (August 20, 2004)) to promote these CRA goals by reducing the high regulatory costs that small institutions disproportionately face when subjected to the same CRA requirements as multi-billion dollar institutions. The FDIC's proposal will permit small institutions to focus their time and resources on lending to the communities they serve rather than complying with burdensome regulatory requirements.

It is important to note that the FDIC proposal expanding eligibility for streamlined small-bank CRA treatment to banks with up to $1 billion in assets does **not** exempt these small banks from CRA examinations. Rather, it helps these small community institutions effectively meet both the needs of their communities and the goals of the CRA. Further, streamlined small bank examinations help ensure the strength and independence of the very institutions which provide the catalyst for economic growth in our local communities: small banks.

By way of historical background, in 1994 and 1995 the financial regulatory agencies acted to help small banks by adopting a streamlined CRA compliance examination for small institutions with assets under $250 million. This streamlined examination still subjected 86.2% of the entire industry's banking assets to the large bank CRA exam. As of March 2004, the percentage of banking assets for the entire industry subject to the large bank test rose by more than 7% to 93.3%. By raising the threshold of streamlined examinations for small banks to $1 billion, 85.1% of industry assets would be subject to large bank examinations. This would bring the assets under the streamlined exam in line with what the regulators determined was necessary to provide relief to small banks ten years ago.

While there is concern that the community development test that the FDIC has proposed is vague, we agree there should be a better way to address a bank's record of helping to meet the credit needs of its assessment area. We would support the FDIC's community development test as proposed so long as this test would provide banks with more flexibility to deal with CRA regulations in a cost-effective way while not imposing any new regulatory burdens and costs.

We appreciate the efforts the FDIC has made to update and improve regulations implementing the CRA, and we look forward to working with you to strengthen our small financial institutions and the communities they serve.

Yours truly,

Michael G. Oxley
Chairman

Richard H. Baker, Chairman
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

Spencer Bachus, Chairman
Subcommittee on Financial Institutions and Consumer Credit

Robert W. Ney, Chairman
Subcommittee on Housing and Community Opportunity

Edward R. Royce

Ron Paul

Paul E. Gillmor

Jim Ryun

Walter B. Jones

Doug Ose

Tom Feeney

Jeb Hensarling

Scott Garrett

Ginny Brown-Waite

J. Gresham Barrett

Shelley Moore Capito

W. Todd Akin

Jim Gerlach

C. L. "Butch" Otter

Pete Sessions

Roscoe G. Bartlett