ARKANSAS BANKERS ASSOCIATION
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September 17, 2004

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: RIN Number 3064-AC50: FDIC Proposed Increase in the Threshold for the Small Bank CRA Streamlined Examination

Dear Mr. Feldman:

I am **President & CEO** of **The Arkansas Bankers Association**. Our trade organization was founded in 1891 and represents more than 200 banks, bank holding companies and thrifts. Ninety-six percent of the banks in Arkansas are members of the Arkansas Bankers Association and the majority of those members are community banks. I am writing to strongly support the FDIC's proposal to raise the threshold for the streamlined small bank CRA examination to $1 billion without regard to the size of the bank's holding company. This would greatly relieve the regulatory burden imposed on many small banks under the current regulation, which are required to meet the standards imposed on the nation's largest $1 trillion banks. I understand that this is not an exemption from CRA and that community banks would still have to help meet the credit needs of its entire community and be evaluated by their regulator. However, I believe that this would lower the current regulatory burden of most members of the Arkansas Bankers Association.

I also support the addition of a community development criterion to the small bank examination for larger community banks. It appears to be a significant improvement over the investment test. However, I urge the FDIC to adopt its original $500 million threshold for small banks without a CD criterion and only apply the new CD criterion to community banks greater than $500 million up to $1 billion. Banks under $500 million now hold about the same percent of overall industry assets as community banks under $250 million did a decade ago when the revised CRA regulations were adopted, so this adjustment in the CRA threshold is appropriate. As FDIC examiners know, it has proven extremely difficult for small banks, especially those in rural areas, to find appropriate CRA qualified investments <u>in their communities</u>. Many small banks have had to make regional or statewide investments that are extremely unlikely to ever benefit the banks' own communities. That was certainly not the intent of Congress when it enacted CRA.

An additional reason to support the FDIC's CD criterion is that it significantly reduces the current regulation's "cliff effect." Today, when a small bank goes over $250 million, it must completely reorganize its CRA program and begin a massive new reporting, monitoring and investment program. If the FDIC adopts its proposal, a state nonmember bank would move from the small bank examination to an expanded but still streamlined small bank examination, with the flexibility to mix Community Development loans, services and investments to meet the new CD criterion. This would be far more appropriate to the size of the bank, and far better than subjecting the community bank to the same large bank examination that applies to $1 trillion banks. This more graduated transition to the large bank examination is a significant improvement over the current regulation.

I strongly oppose making the CD criterion a separate test from the bank's overall CRA evaluation. For a community bank, CD lending is not significantly different from the provision of credit to the entire community. The current small bank test considers the institution's overall lending in its community. The addition of a category of CD lending (and services to aid lending and investments as a substitute for lending) fits well within the concept of serving the whole community. A separate test would create an additional CD obligation and regulatory burden that would erode the benefit of the streamlined exam.

I strongly support the FDIC's proposal to change the definition of "community development" from only focusing on low- and moderate-income area residents to including rural residents. I think that this change in the definition will go a long way toward eliminating the current distortions in the regulation. We caution the FDIC to provide a definition of "rural" that will not be subject to misuse to favor just affluent residents of rural areas.

In conclusion, I believe that the FDIC has proposed a major improvement in the CRA regulations, one that much more closely aligns the regulations with the Community Reinvestment Act itself, and I urge the FDIC to adopt its proposal, with the recommendations above. I will be happy to discuss these issues further with you, if that would be helpful.

Sincerely,

Ken D. Hammonds

Kenneth D. Hammonds
President & CEO