Reed Branson
4115 Robin Drive
Jackson, MS 39206

5758

FDIC RECEIVED
2004 SEP 20 P 2: 49
THE OFFICE OF EXECUTIVE SECRETARY

September 10, 2004
Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St. NW
Washington, DC 20429

RE: RIN 3064-AC50

Dear Mr. Feldman:

I am writing to express my concern over the Federal Deposit Insurance Corporation (FDIC) proposed rule changes to the Community Reinvestment Act (CRA). The proposed policies threaten to stunt rural development efforts and to increase rural predatory lending activity.

Below you will find my comments to each of the proposed rule changes:

1) **The FDIC seeks comment on whether the small bank definition threshold of less than $1 billion is appropriate.**
   In the Mid South (AR, LA and MS), the proposed rule change will curb the community reinvestment activity of approximately of 506 bank branches that hold roughly $13.8 billion in deposits. Of the 506 bank branches that would fall under the new "small bank" definition, roughly 325 serve rural areas.[1]

   Under the proposed rule change the 325 branches serving rural areas would have significantly fewer requirements to engage in affordable home lending, to invest in small businesses and to educate consumers about managing their finances. Additionally, rural consumers often face fewer banking choices than their urban counterparts. As rural banks scale back community investments to the regulatory minimum, the proposed policy will create an environment where rural consumers increasingly turn to subprime and predatory financial institutions to conduct financial transactions.

   Given the suggested policy's potential to diminish access to affordable financial products in rural areas, ECD/HOPE deems that the proposed "small bank" definition threshold of less than $1 billion is inappropriate, harmful and disproportionately targeted towards rural consumers with fewer banking choices. ECD/HOPE therefore recommends that the FDIC maintain its current bank size definitions.

[1] Source: FDIC Summary of Deposits and Statistics on Depository Institutions databases.

2) **The FDIC seeks comment on whether or not a community development performance criterion that offers choices to banks should be included in future CRA exams.**

In the FDIC notice of proposed rulemaking, the FDIC recommends a community development criterion that the banks would choose "based on the opportunities in the market and the banks' own strategic strengths." ECD/HOPE deems the proposed community development criterion as a weak recommendation and a smoke screen for medium sized banks to engage in activities that require the least amount of human capital, the least amount of expense and, ultimately, the least amount of community investment.

Given the prevalence of medium size banks in rural areas, especially in the Mid South where 97.7% of the rural institutions have assets of less than $1 billion, ECD/HOPE strongly recommends that the FDIC maintain its current bank size definitions. Many low- and moderate-income rural consumers depend on medium sized banks for housing and financial services. Medium sized banks must be held accountable for all three components of the current CRA test – community development lending, investing and services provided.

3) **The FDIC proposes to change the definition of community development in rural areas from a definition that "focuses on activities that benefit low- and moderate-income individuals" to a definition that defines community development as "activity [that] could benefit either low-and moderate-income individuals or individuals who reside in rural areas"**

Essentially, by expanding the definition of rural community development to include "individuals who reside in rural areas" the FDIC has elected to use semantics to accomplish community reinvestment in rural areas. Under the proposed definition, banks would receive equal CRA credit for a home loan to a wealthy rural land owner residing in a high income census tract and a first time minority homeowner living in a low-income rural community. Given the equal credit of the two examples, banks would naturally gravitate towards home and commercial lending deals with perceived less risk in high income areas. Over time, low- and moderate-income rural consumers, entrepreneurs and homeowners would effectively be totally written out of rural bank priorities.

ECD/HOPE views the recommendation as preposterous and strongly urges the FDIC not to adopt the expanded rural community development definition. One possible way to increase community investment in rural areas could be to heavily rate community development partnerships that occur between banks, nonprofits and government entities to increase homeownership and small business opportunities for low and moderate income residents.

Contrary to the concerns of mid-sized banks, the CRA paperwork is not an undue burden. Over time, the CRA is an instrument that will improve the overall performance of banks. For example, rural banks that make affordable housing a realistic goal for residents will experience an increased demand for services. Unfortunately, perceptions and a history of policies designed to limit access prevent this from happening in the absence of the CRA.