COMMUNITY FINANCIAL
RESOURCE CENTER

5778

September 25, 2004

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

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RE: RIN 3064-AC50

Dear Mr. Feldman:

As a member of the National Community Reinvestment Coalition, (name of organization) urges you to withdraw your proposed changes to the Community Reinvestment Act (CRA) regulations. CRA has been instrumental in increasing homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities. Your proposed changes are contrary to the CRA statute and Congress' intent because they will slow down, if not halt, the progress made in community reinvestment.

The proposed changes will thwart the Administration's goals of improving the economic status of immigrants and creating 5.5 million new minority homeowners by the end of the decade. Since FDIC Chairman Powell, a Bush Administration appointee, is proposing the changes, the sincerity of the Administration's commitment to expanding homeownership and economic development is called into question. How can an administration hope to promote community revitalization and wealth building when it proposes to dramatically diminish banks' obligation to reinvest in their communities?

Under the current CRA regulations, banks with assets of at least $250 million are rated by performance evaluations that scrutinize their level of lending, investing, and services to low- and moderate-income communities. The proposed changes will eliminate the investment and service parts of the CRA exam for state-charted banks with assets between $250 million and $1 billion. In place of the investment and service parts of the CRA exam, the FDIC proposes to add a community development criterion. The community development criterion would require banks to offer community development loans, investments or services.

The community development criterion would be seriously deficient as a replacement for the investment and service tests. Mid-size banks with assets between $250 million and $1 billion would only have to engage in one of three activities: community development lending, investing or services. Currently, mid-size banks must engage in all three activities. Under your proposal, a mid-size bank can now choose a community development activity

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Founded in 1992 by The Los Angeles Community Reinvestment Committee

CFRC is a California Finance Lender and certified by the U.S. Dept. of the Treasury as a Community Development Financial Institution (CDFI), San Pedro/Harbor Gateway Site: 1891 North Gaffey St., Suite J, San Pedro, CA 90731, Toll Free Telephone: 866.222.CFRC(2372), Facsimile: 310.547.9278

FROM :NCRC FAX NO. :2137439707 Sep. 29 2004 11:29AM P2

that is easiest for the bank instead of providing an array of comprehensive community development activities needed by low- and moderate-income communities.

The proposed community development criterion will result in significantly fewer loans and investments in affordable rental housing, Low-Income Housing Tax Credits, community service facilities such as health clinics, and economic development projects. It will be too easy for a mid-size bank to demonstrate compliance with a community development criterion by spreading around a few grants or sponsoring a few homeownership fairs rather than engaging in a comprehensive effort to provide community development loans, investments, and services.

Your proposal would make 879 state-chartered banks with over $392 billion in assets eligible for the streamlined and cursory exam. In total, 95.7 percent or more than 5,000 of the state-charted banks your agency regulates have less than $1 billion in assets. These 5,000 banks have combined assets of more than $754 billion. The combined assets of these banks rival that of the largest banks in the United States, including Bank of America and JP Morgan Chase. Your proposal will drastically reduce, by hundreds of billions of dollars, the bank assets available for community development lending, investing, and services.

Your proposal would make 40 banks with over $17 billion in assets eligible for the proposed streamlined and cursory exam which accounts for 25% of the banks in the state. In addition, 94% of the banks in California have less than $1 billion. The impact of this proposal will be far reaching and devastating to the target communities within the state of California.

The elimination of the service test will also have harmful consequences for low- and moderate-income communities. CRA examiners will no longer expect mid-size banks to maintain and/or build bank branches in low- and moderate-income communities. Mid-size banks will no longer make sustained efforts to provide affordable banking services, and checking and savings accounts to consumers with modest incomes. Mid-size banks will also not respond to the needs for the growing demand for services needed by immigrants such as low cost remittances overseas.

Banks eligible for the FDIC proposal with assets between $250 million and $1 billion have 7,860 branches. All banks regulated by the FDIC with assets under $1 billion have 18,811 branches. Your proposal leaves banks with thousands of branches "off the hook" for placing any branches in low- and moderate-income communities.

Another destructive element in your proposal is the elimination of the small business lending data reporting requirement for mid-size banks. Mid-size banks with assets between $250 million and $1 billion will no longer be required to report small business lending by census tracts or revenue size of the small business borrowers. Without data on lending to small businesses, it is impossible for the public at large to hold the mid-size banks accountable for responding to the credit needs of minority-owned, women-owned, and other small businesses. Data disclosure has been responsible for increasing access to credit precisely because disclosure holds banks accountable. Your proposal will decrease access to credit for small businesses, which is directly contrary to CRA's goals.

Lastly, to make matters worse, you propose that community development activities in rural areas can benefit any group of individuals instead of only low- and moderate-income individuals. Since a significant number of rural residents are affluent, your proposal threatens to divert community development activities away from the low- and moderate-income communities and consumers that CRA targets. Your proposal for rural America merely exacerbates the harm of your proposed streamlined exam for mid-size banks. Your streamlined exam will result in much less community development activity. In rural America, that reduced amount of community development activity can now earn CRA points if it benefits affluent consumers and communities. What's left over for low- and moderate-income rural residents are the crumbs of a shrinking CRA pie of community development activity.

In sum, your proposal is directly the opposite of CRA's statutory mandate of imposing a continuing and affirmative obligation to meet community needs. Your proposal will dramatically reduce community development lending, investing, and services. You compound the damage of your proposal in rural areas, which are least able to afford reductions in credit and capital. You also eliminate critical data on small business lending. Two other regulatory agencies, the Federal Reserve Board and the Office of the Comptroller of the Currency, did not embark upon the path you are taking because they recognized the harm it would cause.

If your agency was serious about CRA's continuing and affirmative obligation to meet credit needs, you would be proposing additional community development and data reporting requirements for more banks instead of reducing existing obligations. A mandate of affirmative and continuing obligations implies expanding and enlarging community reinvestment, not significantly reducing the level of community reinvestment.

CRA is too vital to be gutted by regulatory fiat and neglect. If you do not reverse your proposed course of action, we will ask that Congress halt your efforts before the damage is done.

FROM :NCRC FAX NO. :2137439707 Sep. 29 2004 11:30AM P4

Sincerely,

Tara L. Taylor
Vice President & Chief Operating Officer

Cc:

National Community Reinvestment Coalition
President George W. Bush
Senators John Kerry and John Edwards

FROM :NCRC FAX NO. :213/439/07 Sep. 29 2004 11:31AM P5