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State of California
DEPARTMENT OF JUSTICE



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May 10, 2005

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, D.C. 20429

RE: RIN 3064-AC89 – Comments to Proposed Revisions to Community Redevelopment Act Examination Regulations

To Whom It May Concern:

On behalf of the Attorney General of the State of California, I am writing to comment on the Community Redevelopment Act (the "CRA") examination regulations proposed by the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("FRB"), and the Federal Deposit Insurance Corporation ("FDIC") (hereinafter collectively referred to as the "federal banking agencies"). The CRA is the primary law that requires federally-regulated banks to serve the needs of low- and moderate-income communities. It has therefore been crucial to improving the lives of those who reside in the poorest California communities by increasing the stock of low-income rental housing, increasing home and small business ownership, and encouraging economic development. Although the Attorney General applauds the federal banking agencies' proposal to expand the definition of community development to include activities in underserved rural areas, he is concerned about the other proposed revisions that will, in effect, reduce the obligations of medium-sized banks to serve the needs of minority, immigrant, and other neighborhoods most in need of community development services.

Due to the exponential growth of California's urban areas, more and more people are relocating to and commuting from rural communities, driving up these communities' housing costs. As a result, many low- and moderate-income rural families can no longer afford to remain in the communities where their families have lived and worked for many generations. The Attorney General therefore supports the federal banking agencies' efforts to increase community development activities targeted at underserved rural communities, which will encourage banks to invest in affordable housing and other services desperately needed in these areas.

The Attorney General, however, has concerns regarding the federal banking agencies'

proposal to weaken the CRA examination requirements for banks with assets between \$250 million and \$1 billion, without regard to holding company affiliation. Although the proposal would include a streamlined community development examination for these medium-sized banks, they would be exempt from examination of their investment and service activities, as well as loan data reporting requirements. This means that most medium-sized banks, including those affiliated with large holding companies, will no longer be encouraged to provide brick-and-mortar branches and affordable deposit accounts in low-income, minority, and immigrant communities. In addition, they will no longer be required to report small business, farm, and community development loan data.

As a result, medium-sized banks will not be accountable in any significant manner for complying with the CRA in the areas of investment and service. These banks will no longer have any obligation to invest in affordable rental housing for low- or moderate-income families or small businesses in those communities. At the same time, they may avoid placing or maintaining branches in low- or moderate-income neighborhoods and refuse to provide low-cost banking services. By eliminating these types of services in the most vulnerable neighborhoods, more abusive lending and banking services will proliferate, including payday loans, check cashing stores, tax refund anticipation loans, auto title loans, and scores of other high cost services these communities can ill afford.

This proposal will have a wide and adverse impact on California's poor communities. According to the statistics of the federal banking agencies, banks with assets between \$250 million and \$1 billion comprise approximately 24% of all FDIC, OCC, and FRB banks in California. Moreover, because the federal banking agencies propose to adjust the \$1 billion ceiling upward annually based on inflation, the percentage of federally-regulated banks subject to a limited CRA examination will increase over time.

By cutting the majority of service and investment information upon which these medium-sized banks are examined, the following information will no longer be taken into account by the FDIC, OCC, and FRB in rating those banks' community reinvestment performance:

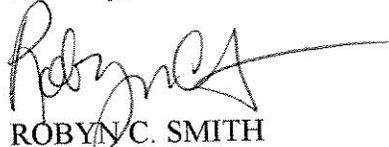
- Amount and number of small business or farm loans by census tract or revenue size of the small business borrowers;
- Loans and investments in health clinics, affordable housing, community services targeted to low- and moderate-income individuals, and economic development projects;
- The bank's branch distribution among communities of different income levels; and
- The bank's record of opening and closing branches, particularly in low- and moderate-income communities.

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Moreover, removing the \$1 billion holding company affiliation ceiling for banks subject to the limited examination requirements will create a potential loophole for large holding companies to exploit when trying to evade CRA compliance. This change raises the possibility that large holding companies will reform their banking subsidiaries as a series of local "small banks" to avoid the investment and service tests.

Overall, the proposal of the FDIC, OCC, and FRB to weaken the examination requirements for banks with assets between \$250 million and \$1 billion, without regard to holding company affiliation, will hinder, rather than further, the CRA's statutory purpose of obligating banks to meet the community development and credit needs of the communities in which they are chartered. This proposal will most likely cause many state- and federally-chartered banks to dramatically reduce services desperately needed by many immigrant, minority, and low- and moderate-income communities, including loans and investments in small businesses, affordable housing, small farms, health clinics, community centers, and economic development projects. The Attorney General therefore urges the FDIC, OCC and FRB not to adopt their proposals to weaken the CRA examination requirements for medium-sized banks.

Sincerely,



ROBYN C. SMITH
Deputy Attorney General

For **BILL LOCKYER**
Attorney General