Coachella Valley Housing Coalition

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May 12, 2005

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

RE: RIN 3064-AC89

Dear Mr. Feldman:

The Coachella Valley Housing Coalition (CVHC) urges you to retain the current exam structure of the Community Reinvestment Act (CRA) regulations. Our concern is that under the proposed changes banks will reduce their levels of branches, community development loans and investments in low income communities.

Situated in Southern California, about 100 miles east of Los Angeles, the Coachella Valley is in a unique community known for its high-end luxury homes and vacation resorts in Palm Springs and Indian Wells. Little known is the fact that the Valley is primarily rural, and economically sustained by low-wage service and agriculture industry jobs.

The Coachella Valley Housing Coalition has committed 22 years to helping low income people improve their living conditions through advocacy, research, and the construction and operation of housing and community development projects. These efforts have meant the construction of more than 2,500 single family homes and apartment units for farmworkers, migrant farmworkers, seniors, and individuals with special needs, HIV/Aids and other chronic illnesses.

The Community Reinvestment Act is a critical component to CVHC's affordable housing and community development efforts. The proposed community development test for mid-size banks with assets between $250 million to $1 billion would combine the existing separate tests for community development lending, investment and services into one. In California, approximately 24% of all FDIC, OCC and FRB institutions have assets within the $250 million to $1 billion range. Within this community development test, the retail portion of the service test would be eliminated as a separate criterion for mid-size banks and would no longer assess the number and percent of branches in low- and moderate-income communities. Even under the current CRA regulations, a disparity exists between the number of branches located in low income communities as compared to the number of check cashing and payday loan establishments.

In the eastern end of the Coachella Valley there is very little access to consumer banking. The City of Coachella has one bank and one credit union. Communities further east, such as Mecca and Northshore have no banking services. CVHC has developed self help single family projects in these communities. The families living in these homes have to commute in order to conduct banking, unless they use expensive check cashing and payday lending outlets. Many families living in the eastern end of the Coachella Valley use cash checking services once or twice a week, paying a 1% fee to cash checks. If they had access to a checking account, they would not only avoid this fee, but also be able to write checks, rather than pay for money orders. Also, families who do not know the value of checking or savings accounts, and do not have them, risk theft and are not able to build credit or accrue interest on their savings. This has an impact on individuals and on the community as a whole.

It is our concern that without the separate test for assessing retail branches under the service test, mid-size banks would not build bank branches in communities such as Mecca and Northshore. Banks, in fact, have targeted their expansions of bank branches in the wealthiest communities of metropolitan areas. Without brick and mortar bank branches, low income consumers in need of financial products remain dependent on high cost fee based services. The provision of bank branches must be a clear factor on any CRA exams for mid-size banks.

Instead of the separate bank service test, financial products such as low-cost bank accounts and low-cost remittances would be evaluated under the new community development test for mid-size banks. Would the agencies evaluate through data collection how well these products work and if they are reaching their intended market? Banks should be responsible under CRA to develop lending, deposit and financial products that work for low income consumers.

Community development lending would also be combined into the single community development test. Rural affordable housing developers have reported that numerous opportunities exist for community development lending including the provision of construction and permanent financing for multi-family and senior rental development, construction financing for numerous USDA/Rural Development guaranteed permanent loan programs, community infrastructure loans/grants, preservation of at-risk affordable housing developments and financing for self- help housing developments. In some small communities a small or mid-size bank is the only financial institution that exists. Clearly, many banks are not taking advantage of these numerous opportunities. In California, one third of all FDIC, OCC and FRB rural institutions have asset levels that would qualify them as mid-size banks. A significant number of rural communities would be adversely affected if these proposed changes are put into effect.

The elimination of the separate investment test would also probably result in low dollar levels of investment. Currently, CVHC has excellent relationships with banks which are eager to meet the CRA requirements. However, we have seen that mergers, changes in staff, and changes in policies can and do quickly change the priorities of these banks. A change in the regulations of the CRA has potential to jeopardize these relationships. Instead of watering down the CRA requirements, more should be done to encourage economic investment by banks in the areas that need it most, rural low income communities. The creation of an investment consortium could serve to meet the needs for rural economic and affordable housing developments.

We applaud your efforts to define rural so that CRA related activities target these underserved communities. The California Tax Credit Allocation Committee (TCAC) analyzes each county and then uses the rural definition from USDA/Rural Housing Service to denote those census tracts that are “urban” or ineligible. Another suggestion is for banks to establish a “rural set-aside” such as a dedicated funding source. This would ensure that communities get their fair share of CRA investments regardless of whether they are part of a bank’s assessment area.

Because of urban infringement on rural communities, land and housing costs are increasing.

Many rural residents that live and work in these communities can no longer afford to live in them. Not only is it necessary to expand the definition of "rural", but there needs to be awareness among the banks and the regulators that many rural communities are experiencing increased rates of poverty along with decreased rates of investments.

CVHC urges you to drop your proposed elimination of public data disclosure requirements for community development, small business and small farm lending. Mid-size banks are vital partners in medium-sized cities and rural communities. Publicly available CRA data, such as small business lending, is an important tool communities use to hold banks accountable for providing credit to small businesses, small farms and affordable housing. Without this important data the public as well as regulatory agencies will have no way to systematically measure the responsiveness of banks to critical credit needs of low- and moderate- income communities.

CVHC implores that you maintain the existing exam structure of separate lending, investment, and service tests. We believe this method is the most effective structure for maximizing the number of branches in a low-income community, increasing the level of community development financing, and encouraging the banks to develop products that would benefit low-income consumers. Without the three separate tests of the existing CRA exam, mid-size banks will have little incentive to meet with communities to negotiate for increased lending, services and investments. If your decision is to operate under a new exam format, then we ask that you compare past levels of community development lending, services and investments so that banks are penalized if they significantly decrease their presence in low-income communities.

Finally, CVHC does not agree that the regulators should adjust the asset threshold for mid-size banks on an annual basis as a result of inflation. If the regulators use an inflation factor each year to increase the number of banks subject to the new and abbreviated CRA exam, the results will be lower levels of bank financing and services for low- and moderate- income communities. Furthermore, exempting small banks owned by holding companies with assets of more than $1 billion dollars from the large bank exam once again disadvantages communities by limiting the levels of community development lending, investments and services to that community.
Thank you for your consideration.

Sincerely,

John F. Mealey
Executive Director

Cc: California Reinvestment Coalition