5775

CEI Ventures Inc.

www.ceiventures.com
www.ceimaine.org

October 1, 2004

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: RIN 3064 AC50

Dear Mr. Feldman:

Thank you for the opportunity to comment on the proposed changes to the Community Reinvestment Act.

The Community Reinvestment Act (CRA) in its current form has been and continues to be extremely important in helping increase access to credit for low-income communities and leverage private capital for the community development field. CRA has been instrumental in increasing access to homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities, both urban and rural. **CEI Ventures, Inc. ("CVI") is particularly concerned by the FDIC's proposal to effectively eliminate the investment and services test for banks up to $1 billion in assets, while also making all rural investments eligible for CRA credit regardless of income level. We urge the FDIC to reconsider its proposal and to maintain these invaluable parts of the CRA test by keeping the current small bank definition ($250 million assets). The consequences particularly for rural America, could be substantial and include derailing current progress made in spurring investment in affordable housing and low-income community businesses in such areas.**

CEI Ventures, Inc. is a for-profit community development venture capital firm (CDVC) and community development financial institution (CDFI) serving the Northeast. We invest equity capital to create jobs for low-income people. We have made over 30 investments totaling over $11 million. Over 3,000 people work at these businesses.

CEI Ventures, Inc. is concerned about four of the changes proposed by the Federal Deposit Insurance Corporation for banks between $250 million and $1 billion in assets that is a result of raising the definition of the small bank to $1 billion:

1) Elimination of the investment and service tests;
2) Elimination of income dependent scoring of community development activities in rural areas.
3) Replacement of the investment and service test with a community development criterion;
4) Elimination of the small business lending data reporting requirement.

We do not believe that any of the proposed changes will improve investment in low- and moderate- income communities in ways that are needed by those communities. While some may

2 Portland Fish Pier, Suite 201, Portland, Maine 04101
(207) 772-5356 Phone, (207) 772-5503 Fax

argue that the replacement of the investment and service test with a community development criterion will help raise capital for the community development organizations that serve low and moderate income communities, we are concerned such community development organization funds will not be sufficient to replace the current investment and services of banks in low-income and especially rural low-income communities.

1) **Elimination of the investment and service tests for banks with assets between $250 million and $1 billion;**

CEI Ventures, Inc.'s success has depended in part on its ability to partner with banks in targeting capital to low-income communities. The Community Reinvestment Act in its current form has been important in helping leverage private capital for the community development field and low-income communities. CRA has been instrumental in increasing access to homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities.

Changes to the CRA proposed by the FDIC would eliminate the investment and service tests for banks with assets between $250 and $1 billion. This could potentially devastate investments in low-income communities by medium sized banks in rural areas such as Maine.

Under the current CRA regulations, large 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 (NCRC, 2004). Proposed changes by the FDIC to the CRA exams would eliminate the investment and service tests for banks with assets between $250 and $1 billion.

There are currently a total of 40 banks chartered and based in Maine. Of these, 16 currently have fewer than $250 million in assets and fall under the current streamlined CRA exam where they are subject to evaluation of their lending, but not investments or services. There are 24 banks that have assets in excess of $250 million and of these 22 have assets between $250 and $1 billion. **Under the proposed changes to the CRA exam, these 22 banks would be exempt from tests in areas of investing and services to low- and moderate- income communities. This would exempt a total of nearly $12 billion in bank's net assets from the investment and service tests in Maine, or 95% of Maine's banks.**

Bank Assets	No of Banks ME	No. ME Banks partner with CEI Venture Funds	% ME Banks by assets, partnering with CEI Ventures, Funds
< $250 million	16	2	12.5%
$250 - $500 million	13	7	54%
$500 million - $1 billion	9	5	55%
> $1 billion	2	2	100%

We believe the regulatory function of CRA has opened up many opportunities and has had positive rather than negative effects for both small and large banks. **We are very concerned that the motivation for some of these banks to invest in community groups will be reduced.**

Of the 16 banks invested in CEI's venture funds, 14 are subject to the CRA investment test. Of the two not subject to the CRA investment test, one is part of a larger corporation that is subject to CRA investment tests elsewhere. A breakdown of the banks currently subject to investment tests under CRA shows that of 22 banks with assets between $250 and $1 billion, 12 work and invest with CEI Ventures, Inc. venture funds.

2) **Replacement of the investment and service test with a community development criterion;**

It is not clear that the community development criterion will given sufficient importance in any rating to ensure that the level of investments in community development groups and low-income area businesses would remain at the current level.

If this proposal was adopted we are concerned there may be a reduced weight for the community development criterion in the CRA test itself. Currently the investment and services test make up 50% of the weight in scoring the CRA test. We hope that the current weighting would be maintained if the community development criterion were to be adopted.

3) **Elimination of income dependent scoring of community development activities in rural areas.**

We recognize and struggle with the issue of accurately ascertaining the income levels of our own clients to ensure we are serving low-income populations in rural areas. However we know that the capital flow to low- and moderate- income communities dispersed throughout rural America, and Maine is crucial to the development of rural economies.

The Community Reinvestment Act was designed to ensure that low- and moderate- income communities in rural as well as urban America, had as much access to credit as their affluent counterparts. Counter to the spirit of the legislation, this proposal will mean that a bank can gain as much CRA credit for investing in rural affluent communities as it can by investing in rural low-income communities.

At CEI Ventures, Inc. we have worked to develop strategies that ensure each loan we make helps low-income individuals either through making direct loans and investments, or by targeting jobs or services for low-income populations at a company not owned by a low-income person. Banks should be held equally accountable in ensuring the loans they make benefit the community and the low-income population within that community.

CEI Ventures, Inc.'s experience of working in rural Maine has shown that to reach low-income communities we need to do additional outreach. If no longer tested on their low-income rural activities, banks may refrain from going the extra step and making the effort to reach out to low and moderate income customers. Coupled with the elimination of small business lending data (discussed below) and no test on services in low and moderate income communities, communities will be powerless to hold mid-size banks accountable for a lack of access to credit for low-income populations. A proposal to only test banks on their rural lending as opposed to their low-income rural lending is not in the spirit of the CRA.

Furthermore we are beginning in Maine to see abusive lenders such as payday lenders and predatory mortgage lenders move into the market. If banks no longer make the effort to reach out to lower income customers with products and services, these individuals may end up going to abusive lenders to access needed credit. Instead of bringing the American Dream to rural low-income populations, this will lead to bankruptcy, homelessness and poverty.

4) **Elimination of the small business lending data reporting requirement for mid-size banks (between $250 million and $1 billion);**

By eliminating the small business lending data reporting requirement for mid-size banks, there would be no way to hold banks accountable to the communities in which they do business. The CRA was developed to provide information on banking activities because banks had had a history of "redlining" entire communities, taking away their dollars deposited for safekeeping but not providing the contingent access to credit. The data hold the banks accountable to lending in low and moderate income communities. In addition the data stimulate innovation and research and development of new products in providing financial services for a particular community.

In summary, the proposals put forward by the FDIC to amend the Community Reinvestment Act will jeopardize the economic progress made in low-income communities to date, and will prevent low-income citizens from being able to hold banks accountable for and responsive to their communities, particularly in rural areas.

Once again, thank you for the opportunity to comment on the proposed changes to the Community Reinvestment Act. If you have any questions, please do not hesitate to contact either Hannah Thomas (hlt@ceimaine.org) or me (nvh@ceimaine.org) at the address above.

Yours sincerely,

Nathaniel V. Henshaw
President