May 10, 2005

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
FDIC
550 17th St., NW
Washington, DC 20429

Delivered Via E-mail

Re: Community Reinvestment, RIN number 3064-AC89;
Proposal to Expand Eligibility for the Streamlined CRA Exam

Dear Mr. Feldman:

I am writing on behalf of the Board of Directors of Heritage Bank of Central Illinois, a $290 million, independent community bank based in rural Peoria County. We currently hold an "Outstanding" CRA rating which was issued in May of 2004. This is the third "Outstanding" rating we have received.

Due to our recent growth, we became a "Large Bank" at the end of 2004. If the definition of "Small Bank" is not changed we will have to begin data collection and the reporting of small business, small farm and community development loans plus begin being examined as a large bank. In general we are pleased with the latest joint proposal to increase the "Small Bank" asset threshold to $1 billion and we can live with the addition of a "community development" standard for banks $250 million to $1 billion, if it is now overly complicated and is reasonably applied. When our bank received its "Outstanding" rating under the current rules in 1998, we were a $75 million bank. Although we have grown to the size we are today, in no way, shape, or form are we a "Large Bank", not in today's world of large, multi-state banks and trillion dollar banks. We have just 5 offices and serve one county. What possible relevance is there in subjecting a bank like us to the same tests as Bank of America, Bank One, Wells Fargo, or even National City Bank (one of our local competitors). If we didn't reinvest in our community, and provide outstanding service, these banks would eat our lunch with their larger array of products and services. I do not understand the rationale that some groups who oppose this proposal have. Why in the world would a bank stop serving its local community just because it is being examined under the "Small Bank" rules versus the "Large Bank" rules? This type of argument is ludicrous and I urge the FDIC to reject it. In fact, at the last CRA exam, our examiner told us that it would be virtually impossible for us to achieve an "Outstanding" rating under the "Large Bank" exam. Talk about a "disincentive" for continuing our CRA efforts. But, if more banks were eligible for the "Small Bank" exam, more banks might try for an "Outstanding" since it might actually be attainable, and wouldn't that be a good thing?

If the rules are left unchanged, the burden of complying with the large bank requirements will cost our bank additional time and money that, quite frankly could be put to better use. Regulatory burden is already a weight that is getting tougher to carry every year with GLB, BSA, the PATRIOT ACT, etc. More and more of my staff's time is being spent on compliance related issues when it should be focused on expanding and bettering the products and services we provide to our community.

The proposed combination of community development lending, investments, and services under a community development test will be much more flexible than the existing separate and overly restrictive large bank test. This flexibility will allow intermediate sized community banks like us to serve their markets in the most appropriate way, given our own strengths and the needs of our local communities. However, for burden reduction to be realized, examiners must understand how to apply this flexibility.

Expanding the definition of community development to include activities that benefit rural communities is also important. Just drive around the state and look at the state of most of our small towns. Many are drying up and blowing away. They are in dire need of community reinvestment. But, at our last CRA exam, we were told that the purchase of $400,000 in revenue bonds for our local rural water district and purchase of our local school bonds didn't count in our CRA evaluation. If we don't invest in Trivoli Water District Bonds and Farmington School Bonds, who will, and why shouldn't we get credit for reinvesting in our community? However, any definition of "Underserved Rural" must be broad enough to encompass areas such as Trivoli, Glasford, Elmwood, and Hanna City. These are small rural towns (some incorporated, some not) located in the Peoria MSA, but no way are they urban in nature. They are middle class to lower middle class areas that are struggling to survive. Their schools are having financial difficulty, there is virtually no development in these areas, and populations are declining. Banks need to get CRA credit for loans made and services provided to these areas. As stated above, if the local bank doesn't investing the schools, water and sewer systems, housing developments, etc. in these small towns, who will? You might consider using the definition that the Farm Service Agency uses for its "Rural Development Guaranteed Housing Loan Program. This definition allows Guaranteed Rural Housing Loans to be made in the non-urban areas of MSA's.

However, I disagree with making "Disaster Areas" a special designation under community development. Are we talking about helping the "poor" rich people on the Florida coast or the Outer Banks of the Carolinas rebuild count as CRA credit? If an area already qualifies (i.e., low-mod income area, rural area, etc.) – fine.

Also, you have asked the question – "Should the bank's community development test performance be weighted equally with its lending test performance in assigning an overall CRA rating. If the definition of "Community Development" is expanded as proposed, then I would say yes. However, what happens if a bank receives an "Outstanding" on one test and a "Satisfactory" on the other – what is the overall rating?

In summary, we strongly urge the agencies to adopt the 1 billion dollar asset threshold for data collection and reporting, and urge the inclusion of "rural areas" in the definition of community development.

Respectfully Submitted,

M. Scott Hedden
President