



# IOWA BANKERS ASSOCIATION

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May 9, 2005

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve  
System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
Docket No. R-1225

Office of the Comptroller of the Currency  
240 E Street, SW., Mailstop 1-5  
Washington, D.C. 20219  
Attention: Docket 05-04

Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, D.C. 20429

Re: Community Reinvestment Act – Joint notice of proposed rulemaking

Ladies and Gentlemen,

Iowa Bankers Association (IBA) is a trade association representing nearly 95% of 417 banks and savings associations in the State of Iowa. We appreciate this opportunity to comment on the joint notice of proposed rulemaking regarding changes to the Community Reinvestment Act.

To begin, a few demographics to describe the banking industry in Iowa: 326 of the 417 banks and savings associations are located outside Metropolitan Statistical Areas (MSAs). Approximately 32 of Iowa banks are of an asset size between \$250,000 million and \$1 billion (these would be the institutions affected by this proposal – less than 10% of institutions in the state). Only four banks have assets over \$1 billion; the remaining institutions (approximately 381) have assets under \$250,000 – already considered “small banks” for CRA purposes. Our members take very seriously their roles in meeting the credit needs of their communities, and have played a strategic role in the stabilization and revitalization of communities across the state.

#### “Small bank” defined

IBA supports the proposal to change the definition of “small bank” from those having assets of less than \$250 million to those having assets of less than \$1 billion, and extending the eligibility for streamlined lending evaluations and exemptions from data reporting to these institutions, without regard to holding company assets. Further, we support the proposal to annually adjust this threshold based on changes to the Consumer Price Index.

However, we oppose the creation of a third category of banks, the “intermediate small bank,” and creation of yet a third examination protocol for institutions falling into that category (assets of between \$250,000 million and \$1 billion). The proposed examination protocol for an “intermediate small bank” has the potential for significant examiner discretion and subjectivity, and creates an examination criteria for institutions that fall into this category that neither a small bank nor a large bank must evidence to earn a “satisfactory” rating...that an “intermediate small bank” must obtain at least a “satisfactory” rating on BOTH the lending test and the “community development” test in order to be rated “satisfactory” for CRA purposes. While this change in

definition of “small bank” alleviates the obligation of institutions under \$1 billion in assets from data collection and reporting of originations and purchases of small business, small farm, and community development loans, this obligation would be replaced with a new burden to continually seek out loans, investments and services to satisfy the new “community development criterion.” As a result, those institutions deemed to be “intermediate small banks” are likely, under the proposed “community development criterion,” to continue collecting data in order to best evidence the scope and effectiveness of community development efforts – so in essence, the regulatory burden is not reduced at all.

In addition, we recommend that the FDIC, FRB and OCC follow the lead of the OTS, which expanded on August 18, 2004 its category of “small savings associations” to include those under \$1 billion, regardless of holding-company affiliation. This would provide consistency in examination criteria among the agencies, as well as parity for institutions governed by different charters. In Iowa, there are several bank holding companies that have banks chartered both under the OTS and FDIC; the inconsistency among agency definitions and examination criteria is particularly burdensome for these organizations. If the inconsistencies remain, regulators may very well find that bank holding companies will charter institutions under the Agency that provides the greatest regulatory relief and supervisory advocacy.

Last, we see no need to establish a third examination criteria or definition for “intermediate small banks” as, under current examination guidelines, small institutions may request that lending-related activities, including community development loans and lending-related qualified investments, be considered in evaluating the institution’s performance under the first four criteria of the small institution test. As a practical matter, the “community development criterion” already exists under current interagency examination guidance.

#### “Community development” defined

We support the proposed change in definition of the term “community development” to include underserved rural areas and “designated disaster areas,” even if located outside “low- or moderate- income” census tracts. We recommend this definition be used for institutions of any size, whether defined as “small bank” or “large bank” for CRA examination purposes. Considering that 57 percent of non-metropolitan counties have no low- or moderate-income tracts, and of those counties having low- or moderate income tracts, only 15% of rural census tracts are designated as low- or moderate income, current CRA requirements leave rural institutions scrambling to find lending opportunities that qualify for CRA credit during examination.

Enhancing the definition of “community development,” eliminating the requirement that loans for redevelopment, revitalization or stabilization of rural communities be targeted to low- or moderate-income tracts, allows rural institutions to focus on unique local opportunities to serve the communities in which the institution is located. We regularly hear from bankers located in rural communities, particularly those located in communities having no low- to moderate-income tracts, that they must look outside their own communities in order to meet existing CRA lending requirements, since the current definition of “community development” targets low- or moderate-income census tracts. Bankers describe many lending activities they’ve undertaken to bolster their communities, for which they’ve received no credit during examination because of this limitation in the definition...for example, tornado shelters in rural areas, designed primarily to benefit nursing home residents; construction of a new fire department facility in a rural area; multi-family and other housing projects to accommodate housing needs brought about by influx of new industry in rural communities; participation in Habitat for Humanity or United Way projects. So many of these lending projects serve to meet the credit needs of the community and to revitalize and bolster the community and local economy, but, sadly, they are excluded during CRA evaluations because the projects are not located in low- or moderate-income tracts. As a result, institutions are forced to look outside local communities to satisfy CRA examination criteria. This is certainly contrary to the overriding purpose of the CRA, which is to serve the local communities in which financial institutions are chartered.

Clearly, this points to another problem with the current CRA examination procedure – that it has become extremely subjective in nature, focusing predominantly on lending/investing in low- to moderate-income tracts, and has gone far astray from the intent of the Act. In 1977, when Congress enacted the CRA, the original charge to institutions was to meet the credit needs of their entire communities, **including** (not limited to) low- and moderate-income neighborhoods, AND consistent with safe and sound lending practices. Financial institutions, under the Act, must demonstrate their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business, and that they meet the convenience and need for credit, including **continuing** and affirmative obligations of the local communities in which institutions are chartered. (12 U.S.C. 2901(a)). It appears that examination practices focus nearly exclusively on an institution's lending and/or investment efforts in low- and moderate-income tracts, rather than on the entire community it serves. Another concern voiced by members is that ongoing ("continuing") lending or investment programs receive little or no credit during successive CRA examinations; that examiners expect from one exam to the next the institution should have looked to new, different and innovative projects. It seems impractical, in terms of meeting the credit needs of an entire community, that an institution should abandon programs proven to be working and enhancing the community in favor of "new" or "innovative" programs just to satisfy the subjective examination criteria for "qualified" loans and investments.

"Rural" and "underserved" defined

We recommend that "rural" be simply defined as those areas outside of designated Metropolitan Areas. We support a definition of "underserved," using the same indicators used by the Community Development Financial Institution (CDFI) Fund rules for "investment area," as outlined in the joint notice of proposed rulemaking.

Iowa banks take seriously the intent of the Community Reinvestment Act, recognizing that no community bank will survive without meeting the needs of its customers and communities. We urge the agencies to provide greater opportunities for institutions to invest resources in meeting the needs of their communities, rather than requiring those institutions to spend valuable resources on regulatory red tape.

Thank you for your consideration of these comments. Feel free to contact me at 515-286-4391 or [dbauman@iowabankers.com](mailto:dbauman@iowabankers.com) should you have questions.

Sincerely,



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