

May 9, 2005

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street Constitution Avenue, NW
Washington, DC 20551
RE: Docket No. R-1225

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St. NW, Washinton DC 20429
RE: RIN 3064-AC89

Office of the Comptroller of the Currency
250 E St. SW, Mail Stop 1-5
Washington, DC 20219
RE: Docket Number 05-04

To Whom It May Concern:

ECD/HOPE, a community development finance institution (CDFI) that has assisted over 1,600 businesses and entrepreneurs, 1,100 homeowners and generated \$175 million in financing throughout the rural Mid-South is writing to comment on the proposed rule changes to the Community Reinvestment Act (CRA). ECD/HOPE supports the position that the current three part CRA test is the most effective set of policies to stimulate bank investment in underserved communities.

In light of the comment period, however, ECD/HOPE recognizes that changes to the current set of CRA policies are on the horizon and appreciates the opportunity to comment. ECD/HOPE commends the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of Comptroller of the Currency (the agencies) for working together – rather than in isolation. ECD/HOPE also commends the efforts made to improve the current proposal from the proposal issued in the fall. Specifically, ECD/HOPE agrees with the agencies' decision to drop the provision to allow mid-size banks with assets between \$250 million to \$1 billion to structure their own CRA exam. ECD/HOPE also endorses the agencies' suggestion to codify anti-predatory lending protections in the CRA regulations.

At the same time, several issues remain regarding the proposal. Below you will find ECD/HOPE's comments to the proposed rule changes:

1) The Elimination of CRA Small Business Data Threatens Efforts to Create Jobs in Economically Distressed Communities

In the fall of 2002, ECD/HOPE conducted a study of Central City – a low-income neighborhood in New Orleans, LA. Some of the neighborhood's characteristics included significant population loss since 1960, high levels of poverty and significant stocks of poor quality housing. The neighborhood did not have a single bank branch and was home to dozens of alternative financial

service providers (check cashing outlets, pay day entities and pawn shops). As part of its assessment, ECD/HOPE examined the business climate of the neighborhood. **The small business data made available through the Federal Financial Institutions Examination Council website was critical to the analysis.** By looking at the 5 year small business lending trends, ECD/HOPE learned that banks had been increasing their small business lending levels in Central City. The finding demonstrated that there were significant small business development opportunities in the neighborhood. Today, Hope Community Credit Union has a branch presence in the neighborhood and is a part of the community.

ECD/HOPE provides this anecdote because it drew from the Neighborhood Business Development Methodology, created by the Initiative for a Competitive Inner City (ICIC). ICIC is a national nonprofit organization founded by Harvard Business School professor Michael Porter. The methodology has been used in several cities across the country. For more information you may view the website and associated studies at www.neighborhoodconnections.org. Specifically, the methodology uses the publicly available CRA small business data to assess the levels of capital access in inner city neighborhoods.

In the absence of mid-size bank small business lending data, economic developers will have an inaccurate picture of a neighborhood's potential. The inaccurate picture may be associated with reduced efforts to engage in inner city reinvestment that support jobs, small business and affordable housing development. Given the practical use of the data outlined above, ECD/HOPE strongly recommends that the regulatory agencies maintain the requirement to report small business lending data in its current format.

2) The CRA Must Preserve the Core Elements of the Service Test

ECD/HOPE is gravely concerned that the elimination of branch location as a core element of the CRA Service Test will result in decreased mid sized bank efforts to provide services in low-income communities. As mid size banks are held less accountable for providing services to low-income communities, the likelihood that high cost alternative financial service providers will move to meet the demand for services increases. ECD/HOPE recommends that an evaluation of bank branch locations and deposit account activity in economically distressed census tracts remain an explicit factor in the CRA Service Test for mid size banks.

3) The Proposed Rating System Must Ensure that Banks have Incentives to Achieve a Desirable Rating

Mid-size banks currently have a five tiered rating system that includes the following ratings: 1) Outstanding; 2) High Satisfactory; 3) Low Satisfactory; 4) Needs to Improve and 5) Substantial Non-Compliance. ECD/HOPE maintains that the five tier rating system provides a more transparent evaluation of a banks' CRA performance than the proposed four tier rating system.

If the regulatory agencies enact the four tier rating system, ECD/HOPE strongly urges the creation of a "Satisfactory" rating that truly reflects "satisfactory" community reinvestment activity. One simple way to achieve ECD/HOPE's rating recommendation would be to raise expectations for mid size bank community reinvestment. In order to achieve a satisfactory rating on the new exam, banks could be required to engage in the level of activity needed to achieve a "High Satisfactory" rating on the old exam.

4) Rural Community Development Definition and Disaster Area Guidance

As a CDFI Fund New Markets Tax Credit (NMTC) Program Participant, ECD/HOPE is well versed in locating and closing commercial loans in economically distressed census tracts. In order to use NMTC investments, ECD/HOPE must make commercial loans in communities that have poverty rates of 20% or higher or a Median Family Income of 80% of the Area Median Income.

Based on ECD/HOPE's NMTC experience, ECD/HOPE agrees with and supports the recommendation of the National Community Reinvestment Coalition (NCRC) to classify low- and moderate-income (LMI) census tracts as census tracts that have incomes up to 90 percent of non-metropolitan median income. The classification will allow a more equitable distribution of LMI census tracts between rural and urban areas. Additionally, the classification will also eliminate the perplexing omissions of certain communities – especially in rural areas – that occasionally occur in the application of the CDFI Fund's NMTC distress criteria.

ECD/HOPE also opposes the granting of CRA credit to banks that make loans and investments in qualified disaster areas. Disasters do not affect all equally. For example, the destruction of beach front property from a hurricane is much more likely to be owned by people and businesses with the insurance and the assets to rebuild. Likewise, the destruction of a low-income community by the same hurricane would much more drastically affect the people living in the low-income community without the same set of resources. In the proposed rule change, however, banks would receive equal credit for making either investment. An investment made to rebuild the beach front property would ultimately dilute the total amount of bank financing and investment capital available to low-income communities. ECD/HOPE maintains that the all CRA qualified investments should occur in LMI census tracts.

5) Anti-Predatory Lending Screen

ECD/HOPE strongly supports the agencies' proposal to reduce a bank's CRA rating when a bank has violated anti-predatory and consumer protection laws. ECD/HOPE also recommends that the agencies apply the proposed policy to all bank lending and the lending of its affiliates. The policy and recommendations should apply to all lending inside and outside of a bank's CRA assessment area.

6) The Mid Size Bank Threshold Should be Maintained – not Adjusted for Inflation

ECD/HOPE opposes the proposal to index Mid Size Bank Thresholds to the Consumer Price Index. By indexing the asset threshold to the inflation rate, the agencies endorse a CRA policy where a number of banks would annually move from being classified as a Mid Size Bank to a Small Bank. Additionally, at the other end of the mid size bank spectrum, a number of banks experiencing growth would be precluded from undergoing a large bank exam by maintaining their Mid Size status. The proposal to adjust the Mid Size Bank thresholds would effectively result in less rigorous CRA exams for banks at the low and high ends of the Mid Size Bank spectrum year after year.

Conclusion

Thank you for the opportunity to comment on the proposed CRA changes. As mentioned earlier, ECD/HOPE applauds the agencies' efforts to make improvements based on comments submitted during the fall period. ECD/HOPE maintains its position that the current set of CRA policies is an effective set of CRA policies that stimulates bank investment in low-income communities. However, if the regulatory agencies decide to proceed with the proposed changes, ECD/HOPE urges the agencies to strongly consider the recommendations made within this letter.

Sincerely,

A handwritten signature in black ink, appearing to be "R. C. [unclear]", written over a horizontal line.