Woodstock Institute

Board of Directors

Chair
Charles Hill Sr.
Charles Hill & Associates, Inc.

Vice Chair
Reginald Lewis
State of New Jersey
Department of Education
Abbott Implementation

Secretary
F. Leroy Pacheco
Assets Chicago

Treasurer
Pamela Daniels-Halisi
LaSalle Bank, N.A.

Members

Malcolm Bush, Ph.D.
Woodstock Institute

Thomas Fitzgibbon
MB Financial

Charles Hill, Jr.
Mercer County Office of
Economic Opportunity

Edward Jacob
North Side Community
Federal Credit Union

Sokoni Karanja, Ph.D.
Centers For New Horizons

Michael Mitchell
Mitchell Development
Consultants, Inc.

Mary Nelson, Ph.D.
Bethel New Life, Inc.

Steve Perkins
Center for Neighborhood
Technology

Lawrence B. Rosser
Opportunity Inc.

Gail Schechter
Interfaith Housing Center of
The Northern Suburbs

Sandra P. Scheinfeld, Ph.D.
Sylvia and Aaron
Scheinfeld Foundation

Ada Skyles, Ph.D., J.D.
Chapin Hall Center for Children
at the University of Chicago

Gregory Squires, Ph.D.
George Washington University

Founder
Sylvia R. Scheinfeld
1903-1990

Malcolm Bush, Ph.D.
President

Marva Williams, Ph.D.
Senior Vice President

Patricia Woods-Hessing
Administrative Director

407 South Dearborn Ave.
Suite 550
Chicago, Illinois 60605
Phone 312/427-8070
Fax 312/427-4007
woodstock@woodstockinst.org
www.woodstockinst.org

May 6, 2005

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

RE: RIN 3064-AC89

To Whom It May Concern:

I am writing from Woodstock Institute to comment on the proposed changes to your regulation of the Community Reinvestment Act (CRA). Woodstock Institute is a Chicago-based research and policy organization that for over 30 years has worked to improved access to financial resources for low- and moderate-income and minority households and communities. Your proposal is an improvement over the one previously issued by the FDIC and a vast improvement over recent changes the Office of Thrift Supervision (OTS) has made to its CRA regulation which we believe violate the spirit of this critical statute. However, we feel there are ways this proposal can be strengthened further.

The key component of your proposal would alter the way that financial institutions with assets between $250 million and $1 billion would have their CRA ratings assessed. It would classify these institutions as “intermediate small banks” and subject them to a two part CRA exam consisting of the small bank lending test and a new community development test. This community development test would evaluate an institution’s level of community development lending, services, and investments in the context of community needs and the institution’s capacity and opportunity for community development activity.

We are happy to see that you did not adopt the Office of Thrift Supervision position to consider all institutions with less than $1 billion in assets as “small” for CRA purposes. We believe that the current three part CRA exam for “large” institutions has been effective at improving access to lending, financial services, and community development resources for low- and moderate-income households and communities.

We are pleased to see that the current proposal will continue to assess an “intermediate small” bank’s levels of community development lending, services, and investments as a part of the new community development test. Each of these three elements are critical to successful community reinvestment and it is important that they are examined separately within the community development test. We are also pleased that the proposal will require an institution receive a “satisfactory” on both the lending and community development tests to get an overall “satisfactory” CRA rating. We do, however, have concerns and comments about other parts of the current proposal.

Consideration of Bank Branching

The proposed community development test for "intermediate small" banks does not consider the location of bank branches. Institutions between $250 million and $1 billion in assets play a critical role in the delivery of financial services in low- and moderate-income and minority communities, yet many of these areas remain seriously underserved by bank branches. Recent research by the Woodstock Institute shows that in 2004 in the Chicago area, low- and moderate-income zip codes had 0.94 and 1.41 full service bank branches per 10,000 people respectively compared to 2.78 per 10,000 people for the region as a whole. However, low- and moderate-income zip codes had nearly $112 million in aggregate household income per full service branch compared to less than $89 million in aggregate household income per full service branch for the region.[1] This indicates a substantial potential unmet met demand for banking services in low- and moderate-income communities. Analysis of 2004 FDIC Summary of Deposits data also shows that Chicago area "intermediate small" banks fell short of the regional average with 15.6 percent of their full service branches in low- and moderate-income zip codes compared to 16.2 percent for all full service branches in the region.

It is clear that there is a gap in access to banking services between low- and moderate-income and middle- and upper-income communities. By not examining "intermediate small" banks for their distribution of bank branches you only invite the opportunity for this gap to widen. Therefore, we believe that "intermediate small" banks should continue to be examined for their branch locations and for their history of opening and closing branches in low- and moderate-income communities.

Importance of Community Need

The proposal states that an "intermediate small" bank's performance on the community development test will be "evaluated in the context of the bank's capacities, business strategies, the needs of the relevant communities, and the opportunities for community development activities." While we understand that considering capacity and opportunity for community development activity are important in providing flexibility, we feel that an institution's responsiveness to community needs must be the primary consideration when evaluating an "intermediate small" bank's CRA performance. Where there is a need for community development lending, services, or investment, it is critical that regulators require "intermediate small" banks to help meet that need. It is also important that "intermediate small" banks not use the combined community development test as an excuse to reduce attention to community development grants and investments in CDFIs. In areas where there is a substantial need for this type of activity, we hope that financial institutions will be evaluated based on the level of investments the institution has previously made as well as on the level of investments made by peer institutions.

Small Business Lending Data

We are also deeply concerned that "intermediate small" banks will no longer be required to report data small business lending and small farm lending. These institutions are significant small business and farm lenders. It was estimated by the Federal Reserve that institutions between $250 million and $1 billion in assets made roughly 20 percent of the dollar volume of all small business loans and 43 percent of the dollar amount of all small farm loans in 2003.

---

[1] Smith, Geoff. February 2005. *Reinvestment Alert 27: Increase in Bank Branches Shortchanges Lower-Income and Minority Communities*. Woodstock Institute: Chicago, IL. See: http://www.woodstockinst.org/document/alert_27.pdf

To lose data on these loans would be a devastating blow to the quality of that data set and make it increasingly difficult for both banking regulators and the public to accurately evaluate the small business and farm lending performance of both "intermediate small" banks and large institutions in the context of the overall small business lending market.

These data have been used not only by regulators and the public to assess the small business lending performance of large banks, but by researchers examining impediments to accessing capital for business owners in low- and moderate-income and minority communities. For example, since the data has become available, Woodstock Institute has used it to examine the relationship between financial industry consolidation and access to small business capital in older urban areas.[2] We have also used the data to identify gaps in access to small business financing in low- and moderate-income and minority communities and to show that financial institutions with branch locations in low- and moderate-income communities are more likely to make small business loans in those areas.[3] Research released by Woodstock Institute using CRA small business lending data includes:

- *Reinvestment Alert 23: Small Business Lending in the Chicago Region, 2001: An Analysis of Small Business Lending Patterns and the Top Small Business Lenders' Performance in Lower-Income Areas* (June 2003) by Geoff Smith
- *Bigger, Faster... But Better? How Changes in the Financial Services Industry Affect Small Business Lending in Urban Areas* (Release in September 2001 by Brookings Institution) by Dan Immergluck and Geoff Smith
- *Access to Capital: Assessing Milwaukee's Continuing Small Business Lending Gaps* (July 2001) by Greg Squires and Sally O'Connor
- *Where Banks Do Business: Small Business Lending Patterns in the Chicago Area, 1996 to 1998* (April 2000) by Dan Immergluck and Marti Wiles
- *Getting Down to Business: Assessing Chicago Banks' Small Business Lending in Lower-Income Neighborhoods* (June 1998) by Dan Immergluck and Erin Mullen
- *Reinvestment Alert 11: New Small Business Lending Data Show Loans Going to Higher-Income Neighborhoods in Chicago Area* (November 1997) by Dan Immergluck and Erin Mullen.

We ask that you continue to require "intermediate small" banks to report small business lending data and recommend additional data be collected. One reason why this data set has not been more widely used is because it is incomplete. Making it less complete by exempting "intermediate small" banks from reporting will make the data virtually worthless. The Federal Reserve estimates a compliance cost of $40,000 to $60,000 per year associated with reporting small business lending data. This is a modest cost for institutions with hundreds of millions of dollars in assets. To make the data more usable, regulators should follow the example of the Home Mortgage Disclosure Act and require institutions to collect and make publicly available data on the race and gender of small business owners and the census tract location of their small business loans. The latter point was actually part of the joint proposal issued by regulators in January 2004.

---

[2] Immergluck, Dan and Geoff Smith. September 2001. *Bigger, Faster...But Better? How Changes in the Financial Services Industry Affect Small Business Lending in Urban Areas*, Brookings Institution Center on Urban and Metropolitan Policy. Washington, D.C.

[3] Smith, Geoff. July 2003. *Reinvestment Alert 23: Small Business Lending in the Chicago Region, 2001: An Analysis of Small Business Lending Patterns and the Top Small Business Lenders' Performance in Lower- Income Areas.* Woodstock Institute: Chicago, IL.

Rural Community Development

We support the proposal to modify the definition of "community development" to include activities that revitalize or stabilize "underserved rural areas." Historically, rural areas have not benefited from CRA to the same extent as urban areas, in part, due to the limited number of census tracts in rural communities that are considered low- or moderate-income. Draft research by the Federal Reserve indicates that currently, 31 percent of urban census tracts are considered low- or moderate-income with only 18 percent of urban counties not having any CRA-eligible tracts. In contrast, less than 15 percent of rural census tracts are currently considered low- or moderate-income with nearly 60 percent of rural counties having no CRA-eligible census tracts.

To expand the opportunity for community development in rural areas, we recommend that the definition of low- and moderate-income in rural areas be modified to be more inclusive, but still targeted to areas with higher levels of low- and moderate-income households. We believe that regulators should raise the low- and moderate-income threshold for tracts in rural areas from 80 percent to 90 percent of statewide non-metropolitan median family income. According to draft research by the Federal Reserve, this would mean that 31.6 percent of rural census tracts would be considered low- or moderate-income, a number roughly equal to the percent of urban tracts currently considered low- or moderate-income in urban areas. This change would drop the number of rural counties with no CRA-eligible census tracts from nearly 60 percent to 30 percent.

In addition to this change, we feel that regulators should consider other "distressed" rural census tracts CRA-eligible that may have a median family income above the suggested 90 percent threshold, but meet other criteria that indicate a need for revitalizing or stabilizing community development activity. We propose using CDFI Fund criteria used to define qualified "investment areas." For tracts with a median family income greater than the suggested 90 percent threshold, this would include rural communities that meet at least one of the following criteria: unemployment rate one-and-a-half times the national average; poverty rates of 20 percent or more; or population loss of 10 percent or greater between the previous and most recent census or net migration loss of 5 percent or greater over the five year period preceding the most recent census. We believe the above suggestion will increase the number of CRA-eligible census tracts in rural areas across the country while still targeting those communities most in need of revitalizing and stabilizing community development activity.

Conclusion

In conclusion, we would regret the loss of the three part test for "intermediate small" banks, a testing structure that has significantly increased community reinvestment activity in lower-income communities, but we consider the three agency proposal a well considered alternative, especially if our suggestions about the consideration of bank branches and reporting small business data were incorporated into the final rule.

Sincerely,

Malcolm Bush
President