CANICCOR RESEARCH

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9 May 2005

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

Re: RIN 1557-AB98

Comments on Proposed Rule Making

Community Reinvestment Act Regulations

CANICCOR provides rankings of the social responsibility of financial corporations to institutional investors and serves as a consultant to these investors in dialogues with these corporations. The purpose of these rankings is to assist investors with social criteria in selecting for investment corporations whose services to underserved sectors of the economy are adequate to superior.

CANICCOR provided comments on 31 March 2004 that were requested by the Access to Capital Working Group of the Interfaith Center on Corporate Responsibility as well as individual institutional investors. CANICCOR then elaborated those comments to the FDIC in further comments of 1 September 2004. In the intervening time requests by investors for information on smaller institutions forces us to strengthen our concerns. This increased demand by investors for information on smaller depository institutions arises as part of their endeavor to invest in more socially responsible small cap institutions. **The opinions presented here are those of CANICCOR alone**.

CANICCOR now maintains that independently of the type of CRA examination that a depository receives from its regulator, all depositories of $500 million and above should be required to report small business lending and small farm lending.

The following argument will show that, if the depositories with assets of under $1 billion cease reporting their small business and small farm lending, their resulting social performances and federal CRA Performance Evaluations based on HMDA data alone would decline significantly, with the result that fewer investors with social concerns will be willing to invest in them.

CANICCOR provides rankings and performance scores for financial institutions on its website www.caniccor.org, and also publishes regular performance reports for investor dialogues with these banking institutions. The following analysis is based upon the latter type of analysis. This analysis calculates the performance at each county level for small business or small farm loans or the MSA level for home purchase loans. The reported lending of a lender for a given loan type or purpose, is examined separately within and outside the assessment area of the lender for each county or MSA. Then the total reported lending of all lenders (the industry) for that given geographic area is scaled down to the amount reported by the given lender, and the amount of loans to a sector of concern by the given lender is compared to the amount of such loans in the scaled industry portfolio. The ratio of the amount of loans by the given lender to the amount of the industry, expressed as a percentage, is what CANICCOR calls the social performance for that sector for that type of loan and geographic area. These amounts of loans from the lender and the scaled industry portfolios can then be aggregated to any geographic and/or corporate level. The amounts of the loans for small business and small farm loans are expressed in dollars, so as to obviate any distortions by large numbers of small credit card sized loans. For the housing loans the numbers of loans are used in this example.

In this analysis, the sectors of concern for small business and small farm loans are the loans to small businesses and small farms, and the sector of concern for single-family home purchase mortgages is the lending to all low-moderate income borrowers. The 2002 data are used in order to be consistent with our previous comment filings.

Table I compares the performances of banks and their holding companies with assets of $500 million up to but not including $1 billion with those with assets of $1 billion and above.

Table I. Loan Amounts reported for 2002 and CRA Performances by Depository Asset Size

	Depository Assets of			
	Banks (Agencies 1 – 3)		Holding Companies	
	≥ $500 million < $1 billion	≥ $1 billion	≥ $500 million < $1 billion	≥ $1 billion
Small Business Loans reported under CRA				
Total Bank Assets, year end	**276.09**	**5,151.21**	219.66	5,833.03
Small Business Loans, Total $ Billions	**28.37**	**184.66**	23.81	200.24
Loans to Small Businesses, $ Billions	**14.21**	**76.74**	11.76	85.19
Performance Relative to Industry for Loans to Small Businesses	**106.8%**	**96.5%**	**105.8%**	**97.9%**
Small Farm Loans reported under CRA				
Total Bank Assets, year end	**157.01**	**3,935.23**	120.31	4,313.38
Small Farm Loans, Total $ Billions	**2.85**	**8.92**	2.14	10.84
Loans to Small Farms $ Billions	**2.53**	**6.92**	1.92	8.60
Performance Relative to Industry for Loans to Small Farms	**102.6%**	**97.4%**	**103.6%**	**98.3%**
Purchase Mortgages (Action = 1) reported under HMDA				
Total Bank Assets, year end	**259.79**	**4,998.0**	221.51	5,438.75
Purchase Mortgages, Total Amount $ billions	**12.15**	**101.54**	11,43	410.90
Total Number	**91,946**	**727,026**	89,624	2,635,801
Low-Mod Borrowers, Number Loans	**22,035**	**194,648**	24,897	724,714
Performances Relative to Industry for Purchase Mortgages to Low-Moderate Income Borrowers	**92.9%**	**95.9%**	**96.1%**	**98.5%**
Overall Weighted Performances relative to Industry				
With Small Busiess and Farm	**102.6%**	**96.3%**	**102.7%**	**98.3%**
Without Small Business and Farm	**92.9%**	**---**	**96.1%**	**---**

Table I shows the performances of banks with assets of $500 million up to $1 billion and also those with assets of $1 billion and above based upon their assets reported in their call reports of year end 2002 on the left hand side in bold. Because single-family housing purchase mortgages are also originated by non-depository mortgage subsidiaries of holding companies with banking subsidiaries, a corresponding analysis is provided on the right hand side of Table I for holding companies. The numbers differ between the two columns for small business and small farm loans because of the aggregation of smaller depository subsidiaries into the larger holding companies as is the case with Synovus, as well as the inclusion of some savings institutions in primarily banking corporations like Citigroup.

The left hand **bank** columns should be used for the small business and small farm analysis, since the federal regulators are setting regulations based upon the individual bank subsidiaries. The holding company information is supplied in order to provide a comparison with the single family housing performances including mortgage subsidiary originations.

If the performance for each type of loan is weighted by the dollar amount of the total loans of that type, then an overall performance can be computed for small business, small farm and purchase mortgages as shown in the bottom portion of Table I. Fortunately, the general picture for the performances is the same both for the banks alone as well as for the holding companies.

The performance of the smaller banks on loans to small businesses is a significant 10 percentage points higher than that for banks with assets of $1 billion and over. Also while the assets of the smaller banks represent only 5% of the combined assets of both size groups, the smaller banks small business loans account for a very large 13% of the total small business lending of the two groups of banks.

The small farm loans are also similarly biased toward the small banks with small banks originating a huge 24% of the small farm loans with performances at 5% above those for the larger banks.

On the other hand the performances on single-family purchase mortgages are reversed between the two groups of banks from the performances on small business and small farm loans. The smaller banks are consistently poorer by 2% to 3%, independently of whether the mortgage subsidiaries are included at the holding company level. We surmise that the large mortgage lenders have developed their single-family mortgage markets so efficiently that the smaller depository institutions find it difficult to compete. Both the bank and holding company data should be considered, with the percentage of total purchase mortgages originated by the smaller banks reduced from 10.7% to only 2.7% when the mortgage subsidiaries are included. This latter number is probably a lower bound because CANICCOR's due diligence in determining who owns mortgage subsidiaries focuses on the larger holding companies.

An overall analysis can then be made by weighting the performances on each type of loan by the dollar amount of that lending. The resulting overall performances show that the banks with assets of $500 million up but not including to $1 billion have higher performances by 5% to 6% for both the bank and holding company calculations. If the small banks had not reported small business and small farm loans, their performances would necessarily be based only upon the their HMDA reported housing data and would have been 2% to 3% below the performances of the banks or holding corporations of $1 billion and greater.

The exclusion of banks with assets of $500 million up to $1 billion from reporting under CRA would eliminate 13% of the reported small business lending of those two asset classes of banks and a very significant 24% of the small farm lending. Small business as well as

small farm loans are the *forte* of these smaller institutions, representing 11.4% of their total assets compared to a mere 3.8% of the larger institutions assets:

1. **Thus both the investors and the federal regulators need CRA loan data on small farm and small business loans in order to provide adequate evaluations of a very important segment of these smaller banks lending portfolio.**
2. **The overall performances of these small banks will decline significantly if only the housing data on HMDA are used for the performance evaluations.**

Many thanks for this opportunity to submit comments on the proposed CRA regulations.

Sincerely yours,

John E. Lind, Ph.D.
Executive Director

Cc: Steering Committee, Interfaith Center on Corporate Responsibility (ICCR), Working Group on Access to Capital, $110 billion in assets under management by members and affiliate members including:

Protestant Church Funds, assets under management of more than $23 billion:
Patricia Zerega, Evangelical Lutheran Church in America
Vidette Bullock-Mixon, General Board of Pension and Health Benefits
The United Methodist Church
William Somplatsky-Jarman, Presbyterian Church (USA)
Harry van Buren, Staff to the Episcopal Church's Social Responsibility in Investments Program

Healthcare Systems, assets under management of $4.4 billion:
Susan Vickers, Catholic Healthcare West
Catherine Rowan, Trinity Health

Investment Fund Managers, assets under management of $13.9 billion:
Lauren Compere, Boston Common Asset Management
Julie Fox Gorte, Director, Social Research Department, Calvert Asset Management Co.
Steven Lydenberg, Chief Investment Officer, Domini Social Investments LLC
Joan Bavaria, President, Trillium Asset Management Corp
Kenneth Scott, Vice President, Portfolio Manager, Walden Asset Management

Religious Orders, assets under management of more than $1.1 billion:
Rev. Joseph P. La Mar, Maryknoll Fathers and Brothers
Séamus P. Finn, Missionary Oblates of Mary Immaculate
Valorie Heinonen, Sisters of Mercy Region of Detroit Charitable Trust, Mercy Investment

Research Organizations:
Allan Telio, KLD Research & Analytics

Others: Paul M. Neuhauser, Professor Emeritus, College of Law, University of Iowa, ICCR Board