Clearinghouse Community Development Financial Institution

CDFI

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May 6, 2005

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Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St. NW 20429
RE: RIN 3064-AC89
E-mail: Comments@FDIC.gov

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THE OFFICE OF EXECUTIVE SECRETARY

Dear Mr. Feldman:

Clearinghouse CDFI urges you to retain the current exam structure of the Community Reinvestment Act (CRA) regulations. Our concern is that under the proposed changes banks will reduce their levels of community development loans and investments in low- and moderate-income communities.

The Clearinghouse CDFI, Community Development Financial Institution, is a for-profit corporation that is addressing unmet credit needs in Southern California We provides direct loans for affordable housing, community development projects, small business and other qualified CRA activities.

The proposed community development test for mid-size banks with assets between $250 million to $1 billion would combine the existing separate tests for community development lending, investment and services into one In California, approximately 24% of all FDIC, OCC and FRB institutions have assets within the $250 million to $1 billion range. Within this community development test, the retail portion of the service test would be eliminated as a separate criterion for mid-size banks and would no longer assess the number and percent of branches in low- and moderate-income communities.

The California Reinvestment Coalition (CRC) recently published a report titled, "The Financial Divide· An Uneven Playing Field: Bank Financing of Check Cashers and Payday Lenders in California Communities." In this report CRC demonstrates the disparities between the number of branches located in low income communities as compared to the number of check cashing and payday loan establishments: "The lack of competition from mainstream finance and huge profit opportunities have meant that the number of check cashers and payday lenders has increased nationally from 2,000 in 1996 to 22,000 in 2003 and is still growing." (p 1)

It is our concern that without the separate test for assessing retail branches under the service test, mid-size banks would not build bank branches in low- and moderate- income communities. Banks, in fact, have targeted their expansions of bank branches in the wealthiest communities of metropolitan areas. Without brick and mortar branches, low- and moderate- income consumers in need of financial services would become further dependent on expensive check cashing and payday lending outlets. The provision of bank branches must be a clear factor on any CRA exams for mid-size banks.

Instead of the separate bank service test, financial products such as low-cost bank accounts and low-cost remittances would be evaluated under the new community development test for mid-size banks Would the agencies evaluate through data collection how well these products work and if they are reaching their intended market? Banks should be responsible under CRA to develop lending, deposit and financial products that work for low- and moderate- income consumers.

Community development lending would also be combined into the single community development test. Rural affordable housing developers have reported that numerous opportunities exist for community development lending including the provision of construction and permanent financing for multi-family and senior rental development, construction financing for numerous USDA/Rural Development guaranteed permanent loan programs, community infrastructure loans/grants, preservation of at-risk affordable housing developments and financing for self- help housing developments. In some small communities a small or mid-size bank is the only financial institution that exists. Clearly, many banks are not taking advantage of these numerous opportunities. In California, one third of all FDIC, OCC and FRB rural institutions have asset levels that would qualify them as mid-size banks A significant number of rural communities would be adversely affected if these proposed changes are put into effect.

The elimination of the separate investment test would also probably result in low dollar levels of investment. Rural community development organizations have reported to CRC, that banks of all sizes ignore their organizations and the numerous opportunities in which they could offer these banks. Rural economic development projects needing new market tax credits, for example, are largely ignored. Larger banks acquiring small rural banks often do not maintain the same personnel nor do they honor past agreements that the acquired bank has with the community. For those mid-size banks that argue that they cannot find investment opportunities in their service areas, perhaps they are not being creative. The creation of an investment consortium could serve to meet the needs for rural economic and affordable housing developments.

We applaud your efforts to define rural so that CRA related activities target these underserved communities. According to one CRC member, "rural" in California is anything outside of the major metropolitan areas like San Diego, Los Angeles, San Francisco, Oakland, and Sacramento. According to this member: "The banks do not understand the markets outside these urban core areas, and they pay little attention to them." The California Tax Credit Allocation Committee (TCAC) analyzes each county and then uses the rural definition from USDA/Rural Housing Service to denote those census tracts that are "urban" or ineligible. Another suggestion is for banks to establish a "rural set-aside" such as a dedicated funding source. This would ensure that communities get their fair share of CRA investments regardless of whether they are part of a bank's assessment area.

Because of urban infringement on rural communities, land and housing costs are increasing. Many rural residents that live and work in these communities can no longer afford to live in them. Not only is it necessary to expand the definition of "rural", but there needs to be awareness among the banks and the regulators that many rural communities are experiencing increased rates of poverty along with decreased rates of investments.

Clearinghouse CDFI urges you to drop your proposed elimination of public data disclosure requirements for community development, small business and small farm lending. Mid-size banks are vital partners in medium-sized cities and rural communities. Publicly available CRA data, such as small business lending, is an important tool communities use to hold banks accountable for providing credit to small businesses, small farms and affordable housing Without this important data the public as well as regulatory agencies will have no way to systematically measure the responsiveness of banks to critical credit needs of low- and moderate-income communities.

Clearinghouse CDFI implores that you maintain the existing exam structure of separate lending, investment, and service tests. We believe this method is the most effective structure for maximizing the number of branches in a low-income community, increasing the level of community development financing, and encouraging the banks to develop products that would benefit low-income consumers. Without the three separate tests of the existing CRA exam, mid-size banks will have little incentive to meet with communities to negotiate for increased lending, services and investments. If your decision is to operate under a new exam format, then we ask that you compare past levels of community development lending, services and investments so that banks are penalized if they significantly decrease their presence in low-income communities.

Finally, **Clearinghouse CDFI** does not agree that the regulators should adjust the asset threshold for mid-size banks on an annual basis as a result of inflation If the regulators use an inflation factor each year to increase the number of banks subject to the new and abbreviated CRA exam, the results will be lower levels of bank financing and services for low- and moderate- income communities. Furthermore, exempting small banks owned by holding companies with assets of more than $1 billion dollars from the large bank exam once again disadvantages communities by limiting the levels of community development lending, investments and services to that community.

Thank you for your consideration.

Sincerely,

Douglas J Bystry
President

Cc: California Reinvestment Coalition