NATIONAL RURAL HOUSING COALITION

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August 23, 2010

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Re: Docket ID OCC-2010-0011

Robert E. Feldman
Executive Secretary
Attention: Comments, Federal Deposit
Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Re: RIN 3064-AD60

Jennifer J. Johnson
Secretary, Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Re: Docket No. R-1386

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2010-0019

Re: Community Reinvestment Act Comments

Dear Sir or Madam:

We appreciate having this opportunity to share our recommendations for ways the Community Reinvestment Act (CRA) regulations and even statute can be strengthened to better meet the goals of the law and address the needs of consumers living in rural areas, particularly those living in economically distressed rural communities. The National Rural Housing Coalition (NRHC) has been a national voice for rural low-income housing and community development programs since 1969. The Coalition is comprised of more than 250 members throughout the country. Through direct advocacy and policy research, the Coalition has worked with Congress and various federal agencies to design new programs and improve existing programs serving the rural poor. The Coalition also promotes a non-profit delivery system for these programs, encouraging support for rural community assistance programs, self-help housing, and rural capacity building.

Banks and thrifts are critical partners in our efforts to promote the development of affordable housing, homeownership and economic opportunity in rural communities. The Community Reinvestment Act (CRA) provides an incentive for financial institutions to reach out and develop relationships with community based housing organizations, and CRA credit is an important incentive for banks to stay committed to providing services and products designed specifically for low and moderate income borrowers. While some banks and thrifts might continue to serve low and moderate income markets without this incentive, we firmly believe and have witnessed that most institutions will not serve rural markets without the incentive of favorable CRA ratings.

We urge you to consider the following recommendations that we believe would strengthen implementation of CRA in rural communities and ensure low and moderate income rural communities are provided access to affordable credit:

1) Enforce consistent, uniform evaluation criteria and reporting across regulatory agencies. As your agencies evaluate changes to strengthen CRA implementation we want to stress the importance of consistency in the way CRA oversight officers interpret and implement CRA across the country. All regulatory agencies must be on the same page in terms of how each office and officer evaluates CRA eligible investments.

2) Expand assessment area coverage and accountability to rural communities.
Currently under CRA regulations banks are not held accountable for performance outside of their largest service areas. This results in less oversight of investments made in low income communities which leaves room for suboptimal servicing on loans provided to these customers and can foster poor performance in certain places like rural counties without penalty. In order to ensure that rural areas are given adequate attention we recommend that a bank's CRA rating be based on its performance throughout its entire service area. By requiring ratings in all assessment areas, a low rating could be detected and an improvement plan required so that a given bank would be more likely to serve distressed rural areas well.

Borrowers located in rural areas often suffer from inadequate access to banking services, so additional CRA incentives to encourage banks to make products and services available to rural residents and businesses at affordable rates and terms would be welcome. Because of their smaller size and remoteness, rural communities tend to have less competition among lending institutions and thus higher lending costs than urban markets.

We suggest CRA regulations and any revisions to the CRA statute define "rural" areas as those rural areas defined in section 520 of the Housing Act of 1949 – that is, the definition used for the U.S. Department of Agriculture's rural housing programs. This definition best mirrors the rural character of the communities we serve that are most overlooked by traditional financial institutions and capital markets, and it is well understood by those who develop and finance rural housing.

It is important that activities undertaken by bank affiliates are considered during CRA examination and reflected in ratings since many financial services are provided to rural borrowers through affiliates of bank institutions like credit card providers. Regulations that require examination of affiliate activities are necessary. We support the Community Reinvestment Modernization Act of 2009 (HR 1479) provision that would require banks that capture 0.5% or more of a local lending market to include that local geographic area in their assessment areas, allowing for the first time rural counties to be rated, not just examined.

3) The same three CRA performance tests should be applied to bank institutions of all sizes. As a result of recent regulatory changes that increased asset benchmarks, banks with assets up to $1.098 billion are not evaluated under the investment or services test, just the lending test. We believe all CRA regulated financial institutions regardless of asset size should be held to the same oversight standards and required to meet all three tests on their CRA exam.

Several NRHC members have observed and are troubled by recent reductions in lending to low income rural businesses and projects now that banks that were once considered large are now considered "small" and are exempt from the CRA investment and services tests.

4) Additional lending institutions and their affiliates should be accountable to the communities where they do business through CRA regulation. The types and sizes of lenders working in rural areas have changed since CRA was first enacted and now includes insurance companies, mortgage brokers and credit unions. We support statutory changes that would make these financial services providers accountable to the diverse communities they serve by expanding and applying CRA regulatory requirements to these types of institutions.

Many banking institutions that once served a smaller targeted market are now doing business in larger service areas so should be held accountable through CRA regulations to borrowers in that larger geographic area. Credit unions in Washington State, for example, are now serving the general state population beyond a once defined geographic and demographic subset of members, putting them on equal footing with CRA regulated banks. Seattle-based BECU, for instance, was once open only to Boeing employees and families (BECU stood for Boeing Employees' Credit Union). Now, any student, resident or employee in a Washington state school district can apply and become a member, an important expansion of financial services being provided to borrowers that should come with proper oversight and accountability to the low and moderate income borrowers in urban and rural parts of the state through CRA regulation. Financial services providers should have the same responsibility as banking institutions that are already CRA regulated institutions to be certain low and moderate income borrowers have access to capital.

5) Add more ratings categories to the CRA evaluation process. Current rating categories do not allow for the fine grained assessment of institutions that is necessary to accurately judge their compliance with CRA and their level of service to low and moderate income communities including those in rural areas. We recommend adding at least two more categories to the rating calculation to create greater competition among participating banks and to promote greater community impact and innovative solutions to bring capital to underserved borrowers on rates and terms they can afford.

Thank you for your attention to this matter. We appreciate your solicitation and consideration of these comments.

Sincerely,

Robert A. Rapoza