The Housing Partnership Network

October 20, 2004

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

RE: RIN 3064-AC50

Dear Mr. Feldman:

On behalf of the Housing Partnership Network, and in my capacity as President, I urge the FDIC to withdraw its proposal to change definition of "small banks" in the Community Reinvestment Act regulations for mid-sized banks. CRA has been extremely important as an incentive for sound investments to expand affordable housing options and home ownership. It has also helped to stimulate investments in job creation and entrepreneurship in low and moderate income and minority communities. We believe that the proposed changes to the CRA regulations are inconsistent with the Administration's stated goals of improving the economic status of immigrants and creating 5.5 million new minority home owners by 2010.

The Housing Partnership Network is a peer network and business cooperative of 80 of the most accomplished affordable housing nonprofits in the country. Housing partnerships combine entrepreneurial business approaches found in the for-profit sector with the accountability and public purpose of traditional nonprofits. They are smart and nimble in the marketplace, pursuing ventures that have large-scale impact and leverage public and private investments. Each has built and nurtured strong partnerships among public, private and community interests, and they have been particularly effective at working with regulated financial institutions that would be impacted by the proposed rule. Our members operate in all types of markets - urban, suburban and rural – and sponsor a wide range of development, lending, counseling and service programs. Collectively, Network members have developed or financed 300,000 units of affordable rental housing, built or helped lower-income families purchase or rehabilitate 200,000 homes, and served as homeownership counselors to 250,000 families.

Under current CRA regulations, banks with assets of at least $250 million are rated by performance evaluations that scrutinize their level of lending, investing, and services to low- and moderate-income communities. The proposed changes to the regulations would eliminate the investment and service tests for banks and thrifts with assets between $250 and $1 billion. The proposal would make 879 state-chartered banks with over $392 billion in assets eligible for a more cursory CRA examination. More than 5,000 state-chartered banks regulated by the FDIC have less than $1 billion in assets. These banks represent almost 96% of all FDIC-regulated state-chartered lending institutions. Banks with assets between $250 million and $1 billion have 7,860 branches in communities across the country. States with no institutions with more than $1 billion in assets include the District of Columbia, Hawaii, Idaho and Wyoming. States with four

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or fewer such institutions are: Alaska, Arkansas, Iowa, Louisiana, Maine, Minnesota, Montana, North Dakota, New Hampshire, Oregon, South Dakota, Vermont and West Virginia.

The members of the Housing Partnership Network have made extensive use of Low Income Housing Tax Credits. LIHTCs are a valuable tool, but their complexity can be daunting to smaller banks and thrifts in their roles as both lenders and investors. The investment test is an important incentive to smaller banks and thrifts who, in turn, are particularly important sources of capital in some urban neighborhoods, smaller communities and rural areas. Services such as branches, checking accounts, Individual Development Accounts (IDAs) and debit card services, which are addressed by the service test, are also of crucial importance to communities where small banks and thrifts have a vital role.

The FDIC's proposal to change the regulations states, in part:
"...we propose to add a mandatory community development performance criterion for banks with assets greater than $250 million and up to $1 billion as an additional component of the streamlined small bank standards. This community development criterion would be evaluated along with the current streamlined criterion applicable to all small banks.

For those banks covered by this community development criterion, the FDIC will assess a bank's record of helping to meet the needs of its assessment area(s) through a combination of its community development lending, qualified investments, or community development services. Such banks will be required to engage in activities that meet credit needs in their assessment area(s), but may balance their community development lending, investing and service activities based on the opportunities in the market and the banks' own strategic strengths. For example, a bank with assets greater than $250 million and up to $1 billion may perform well under the community development criterion by engaging in one or more as opposed to all of the activities.

We do not believe that the proposed community development criterion will adequately replace the investment test. Currently, lending institutions between $250 million and $1 billion in assets must meet all three of the CRA's tests -- lending, investment and services. Allowing lenders to choose one of the three tests based on the lender's needs rather than the community's needs will not serve the community development needs of low and moderate-income communities. It also will not encourage lenders to use their creativity to find the best ways to meet those needs, which we believe is a fundamental purpose of the CRA.

We also do not believe that the elimination of small business lending data reporting requirements for banks between $250 million and $1 billion in assets furthers the purposes of the CRA.

In inviting comments on the proposed changes to the regulations, the FDIC noted that:
"...many community organization commenters expressed concern about investments and service to rural communities. To address this concern, we propose amending the definition of "community development," which now focuses on activities that benefit low- and moderate-income individuals. As proposed, 'community development' activity could benefit either low- and moderate-income individuals or individuals who reside in rural areas." We respectfully object to the proposed provision that community development

activities in rural areas be considered as meeting the requirements of the CRA irrespective of the income levels of the beneficiaries of the activities. That would be comparable to allowing any activities in a central city to be considered as meeting the requirements of the act simply because the city as a whole includes low and moderate-income neighborhoods.

I urge the FDIC to stand firm behind the purposes of the Community Reinvestment Act. "Small" banks play a vital role in the nation's communities, and we need them to continue to play a vital role in community development. The effectiveness of the CRA in meeting that objective is unquestionable, and it deserves to be protected by the FDIC and other lending regulators.

Sincerely,

Thomas Bledsoe
President