CALIFORNIA
HOUSING
PARTNERSHIP
CORPORATION

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APR 27 2005
By

April 20, 2005

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

RE: RIN 3064-AC89

To Whom it May Concern:

The California Housing Partnership Corporation (CHPC) urges you to retain the current exam structure of the Community Reinvestment Act (CRA) regulations. CHPC was created by the California legislature in 1988 to assist nonprofit and government agencies to preserve and create housing affordable to lower income households. CHPC strongly opposes the proposed changes because we believe that, under the proposed changes, banks will reduce the number of branches, community development loans and investments they make in low- and moderate-income communities.

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.

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-

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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.

The elimination of the separate investment test is also likely to result in lower dollar levels of investment, particularly in rural areas. Rural community development organizations have reported that banks of all sizes ignore their organizations and the numerous opportunities to invest in affordable housing which they offer these banks. 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, the creation of an investment consortium could serve to meet the needs for rural economic and affordable housing developments.

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. 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. We applaud your efforts to define rural so that CRA-related activities target these underserved communities.

CHPC urges you to drop your proposed elimination of public data disclosure requirements for community development, small business and small farm lending. Publicly available CRA data 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.

CHPC asks that you maintain the existing exam structure of separate lending, investment, and service tests. We believe this method is the most effective for ensuring that banks will not decrease their level of community development financing. 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, CHPC 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,

Matt Schwartz
Executive Director

cc Alan Fisher, California Reinvestment Coalition