From: Matt Funke [mailto:mfunke@smbtonline.com]
Sent: Wednesday, March 30, 2005 5:53 PM
To: Comments
Subject: RIN No. 3064-AC89 - CRA Regulations.

PO Box 520
Poplar Bluff, MO 63902

March 30, 2005

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

RE: RIN 3064-AC89, Joint Notice of Proposed Rulemaking, Community Reinvestment Act (CRA) Regulations

Dear Mr. Feldman:

We are writing you as the President, CRA Officer, and the Compliance Officer of Southern Missouri Bank, headquartered in Poplar Bluff, Missouri, with branches here and in four surrounding counties with a total population of approximately 120 thousand persons. Every census tract within our five counties is considered "moderate" or "middle" income by the Census Bureau. Our bank has total assets of $320 million and was recently examined under existing CRA exam procedures for "large" banks.

We are strongly in favor of the FDIC's proposal to increase the CRA large bank threshold to $1 billion, while adding the more flexible community development test for "intermediate small banks." We believe that adoption of the proposal would be a reduction in the regulatory burden imposed on the bank under current CRA regulations. As a community bank committed to growing in our small communities, we are committed to meeting the needs of our entire community – indeed, in order to grow, we must be – and this would not change under the new regulations. However, the flexibility added by the proposed changes would allow us to focus on meeting the needs of the community, rather than expend resources by tracking information, or seeking investment opportunities outside our assessment area in order to receive credit under the investments test.

Because it seems the easiest manner in which to format this letter, we have included below the specific items for which the agencies requested comment, followed by our response.

1. The federal banking agencies invite comment on whether other approaches would be more appropriate to addressing the CRA burdens and obligations of banks with less than $1 billion in assets. Is there another appropriate asset threshold to use when defining intermediate small banks, and, if so, why?

We believe that the $1 billion threshold is currently appropriate.

2. We seek comment on the proposal to adjust the asset size for small and intermediate small banks on an ongoing basis, based on changes to the Consumer Price Index.

We also are in favor of the proposed indexing of CRA thresholds for future years. In fact, had indexing been adopted a decade ago, the need for these revisions would likely have been avoided, or, at the least, lessened.

3. Under the proposal, banks with assets between $250 million and $1 billion will no longer be required to report data on small business, small farm, and community development lending. The federal banking agencies seek comment specifically addressing whether and how the public has used the loan information that has been reported to date by such intermediate small banks (for example, by reference to specific studies on bank lending patterns that used the data), and whether other sources of data about this lending can be used for such purposes going forward.

We have no comment on this item, but would point out that no member of the public has ever asked to review our CRA public file.

4. Does the proposal provide more flexibility in how an intermediate small bank may apply its community development resources through a more strategic use of loans, investments and services? Does the proposal to permit examiners to use performance context to give consideration in a current-period rating, to prior-period outstanding investments that reflect a substantial financial commitment by the bank, also provide more flexibility for intermediate small banks?

We strongly believe that the proposal would allow more flexibility in the manner in which we meet the community development needs *in our community*. We believe this greater flexibility for both the bank and examiners will allow credit for actions that are more closely aligned with the purposes of the act.

5. Does the proposal to evaluate all community development activities of intermediate small banks under one test have the potential to make the evaluations of those banks' community development performance more effective than under the current regulation?

It is our opinion that the "one test" approach will be better suited to evaluate banks of this size. We also believe the approach will be more streamlined and allow the bank and its examiners to focus on results, rather than meeting technical requirements in several areas.

6. Should the community development test for intermediate small banks be separately rated as proposed? If so, should an intermediate small bank be required to achieve a rating of at least ``satisfactory'' under both the small bank lending and community development tests to achieve an overall ``satisfactory'' CRA rating? Should the bank's community development test performance be weighted equally with its lending test performance in assigning an overall CRA rating? Would other ratings floors or weights be appropriate to provide greater flexibility in certain circumstances? If so, under what circumstances?

We do not agree with a separate rating, with the requirement for at least a "satisfactory" community development rating in order to achieve an overall "satisfactory" rating, or with equal weighting for the community development and lending tests. We believe that the primary rating factor should be the bank's lending performance.

> 7. The federal banking agencies seek comment on whether the existing definition of ``community development'' provides sufficient recognition for community services to individuals residing in underserved rural areas and designated disaster areas and, if not, how to encourage the provision of such services to persons in underserved rural areas and designated disaster areas that have the greatest need.

Our bank operates in an assessment area which includes 18 middle-income and 15 moderate-income census tracts. Despite the impoverishment present in several portions of that area, not a single tract is considered low-income. Statistical definitions are what you make of them, and we believe that our circumstance illustrates that the use of these classifications alone is not sufficient for rural areas. We have addressed how we believe areas which are of greatest need should be identified in response to item #10.

> 8. We also seek comment on the merits of the proposed treatment of the definition of ``community development'' in underserved rural and designated disaster areas and invite suggestions for alternatives.

As noted in response to item #7, above , we believe that the expansion of "community development" is appropriate.

> 9. We seek comment on the proper way to define ``rural.'' Should we adopt a definition and, if so, which one? For example, should all areas outside a metropolitan area be considered ``rural''? Alternatively, should the federal banking agencies define rural consistent with the definition employed by the Census Bureau? The Census Bureau defines any territory or population not meeting its criteria for ``urban'' to be ``rural.'' Are there other definitions the federal banking agencies should consider?

We believe the Census Bureau definition would misrepresent the true nature of most of our assessment area, if rural is to be defined as only that area outside "urban areas" or "urban clusters." We believe a more accurate definition of rural would be any area outside a metropolitan statistical area.

> 10. We also seek comment on the proper way to define ``underserved'' when used in connection with rural areas. Should we adopt a definition and, if so, which one? For example, should the term refer solely to those rural areas showing signs of economic distress or lack of investment? If so, what indicia should the federal banking agencies use to identify such rural areas? Should we use criteria from other federal programs, such as the Community Development Financial Institutions Fund (CDFI) rules? Indicators used by the CDFI Fund to define ``investment areas'' include counties with (a) unemployment rates one-and-a-half times the national average, (b) poverty rates of 20% or more, or (c) population loss of 10 percent or more between the previous and most recent census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census.

We generally believe that the *type* of metrics proposed here would be useful; however, we would recommend that the comparison be not only to national averages or changes in absolute statistics, but also to changes relative to the state or region. For example, if a census tract's population dropped 5% while the state grew 5%, *or* if the loss was 10% or more, either situation would indicate that the tract in question is in need of community development.

> 11. Should ``underserved rural area" be defined in the regulation to also encompass those rural areas that have been targeted by a governmental agency for redevelopment, without regard to median income characteristics of the area?

We do not believe that areas targeted for redevelopment should generally be considered underserved on that basis alone.

> 12. Should ``underserved rural area" be limited to low- and moderate-income areas, without regard to whether those areas show signs of economic distress, lack of investment, or are targeted for redevelopment by a governmental agency? If so, should the OCC, FDIC, and Board adopt a different method than currently exists in the regulation for determining when a rural area is low- or moderate-income? For example, under the current regulations, the area must be a low- or moderate-income census tract, which the regulations define as a tract with median family income that does not exceed 80% of the statewide non-metropolitan median family income. Would raising the low-and moderate-income threshold in non-metropolitan communities from 80% of non-metropolitan median family income to some higher figure, such as 85%, 90%, or 100%, more appropriately identify underserved rural areas? Alternatively, would identifying another measure of median income instead of the non-metropolitan median income, such as the statewide median income, more appropriately define low- and moderate-income for purposes of defining underserved rural areas by reference to low- and moderate-income characteristics?

We believe that other factors, in addition to the income of an area's residents, should be considered when identifying underserved rural areas (e.g., other factors to consider would be population losses, disasters, etc.). We believe that use of a statewide median income or a larger percentage of state non-metropolitan income would be more appropriate in identifying underserved rural areas.

> 13. As proposed, the definition of ``community development" would encompass affordable housing for people who do not meet the regulatory definition of ``low- or moderate-income" if, and only if, they reside in underserved rural areas. The federal banking agencies seek comment on whether the current regulatory definition of ``low- or moderate-income individual" is unduly restrictive for purposes of identifying individuals in rural areas who need affordable housing. If so, in what ways?

We believe that the current regulatory definition does not adequately identify rural individuals in need of affordable housing. Housing construction costs in our area are not that different from the costs in metropolitan areas. And yet, the regulatory definition for LMI individuals is about one-third higher in those metropolitan areas than in our own. We believe this discrepancy considerably underestimates the difficulty to our residents of finding affordable housing.

A final item we would like to address, though it was not specifically asked, is that the proposed revisions are also beneficial in that they reduce the “cliff effect” of the current regulation. A small bank that meets the $250 million threshold today must suddenly begin monitoring and reporting information, ensure that it has met investment and service requirements, and completely reorganize its CRA program, just as if it were a bank one thousand times larger. A more graduated transition to the large bank examination is a significant improvement over the current regulation.

In conclusion, we want to thank the FDIC for the opportunity to provide comment on this matter. We believe that the proposed revisions to the regulations are a significant improvement, and that they do much to realign the regulations with the original intent of the act. We urge the FDIC to adopt the proposal, after careful consideration of our comments, and the many other comments it is certain to receive. We would be happy to discuss these issues with you further, if it would be helpful.

Sincerely,

Greg Steffens
President

Adrian Ruffing
CRA Officer

Matt Funke
Compliance Officer

Southern Missouri Bank & Trust