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Comments on proposed rule making changes to the Community Reinvestment Act
Re: RIN 3064-AC50

We are a consulting firm that works with community banks to help them meet their CRA responsibilities. We have worked with dozens of community banks in that capacity and offer our comments on the proposed regulatory changes.

First, we believe the cost savings achieved by relieving banks in the $250 million to $1 billion size category from reporting is very minimal and the harm done to banks who seriously pursue their CRA obligations is substantial. Today, there are numerous software packages that are designed to facilitate the collection and reporting of loan data pursuant to CRA. Many of these packages are very inexpensive and very effective. We know of at least one software vendor with an excellent package that is licensed for less than $1,000 per year and will convert all reportable CRA loans to the appropriate reporting format and simultaneously generate reports intended to help a lender analyze their CRA performance. Moreover, even non-reporting lenders are expected to continue to comply with the regulation. But how can you comply if you don't collect, maintain and analyze the data in the first place (which is what the proposed "saving" is based on)? In other words, lenders who take their CRA responsibility will continue to collect and monitor their loan data even if it is not reported. The additional cost to actually report the data is almost nothing! Therefore, those lenders would not achieve any savings at all from the proposal, although that is put forward as the primary reason for the proposed change.

Second, there is significant harm done by the proposal to banks that pursue CRA in good faith. The current regulations do not mandate specific quantitative performance criteria but rely on "performance context" data. Although there are many performance context factors, the most meaningful are the loan data reported by other lenders under CRA. An important reference point in the evaluation of lender CRA performance is the ability to compare a lender's activity to other lenders in the community. This is one of the most effective barometers of performance under CRA. How do my penetration rates in the LMI geographies compare to the market penetration rates? How does my penetration rate lending to very small businesses compare to other lenders, and *particularly my peers* in the market? If the proposed change is adopted, lenders under $1 billion in assets would loose the ability to compare their performance to other similarly sized lenders. The only data that would be available for comparison purposes would be the data for "large"

banks. This would put the smaller bank at a substantial disadvantage because the only lending benchmarks would be the reported loans of larger lenders. In other words, the smaller banks either would be denied an “apples to apples” comparison, or they would lose a valuable performance benchmark altogether. Even examiners would be at a disadvantage when evaluating performance of lenders under $1 billion if they are denied the opportunity to compare banks of similar size. Does this sound like progress? This would only add uncertainty to the CRA performance of the intermediate size banks.

The market and communities would be harmed by the proposal because banks that use CRA data for market analysis purposes would be denied information about the loan market. We encourage our clients to use the CRA and HMDA reported loan data for intensive market analysis, not just compliance purposes. Last year, one of our clients studied the CRA reported loan data in their market and realized that small lenders were overlooking a market opportunity exposed by the CRA data. That data showed a very substantial market for $100,000 and under loans that was dominated by the mega-institutions and neglected by local community banks. They concluded this was a significant lending opportunity and consequently developed and marketed a “Small Business Loan Express” program aimed at that market. They never would have introduced the program if the comprehensive market data weren’t available under CRA. If anything, regulators should consider breaking the CRA data down to the tract level so that lenders and their loan activity can be analyzed down to that level (like is done with HMDA data).

Community development lending and investing is definitely an area that needs to be reconsidered. Nationally, more than one-third of the reporting lenders in 2003 did not originate even one community development loan (775 of 2,103 reporting lenders). More than half the reporting lenders reported 2 or fewer community development loans. Does this mean more than half the reporting lenders have failed their community lending responsibility? In our state, Connecticut, one lender originated $1,245,822,000 of the $1,357,470,000 reported community development loans that year. In other words, one lender originated more than 90% of the community development loans reported by Connecticut-based lenders that year. More than half the Connecticut-based lenders did not originate even one community development loan in 2003 (if you want comprehensive CRA and HMDA data my company compiles and organizes the data to facilitate market and compliance analysis). Most of the proposed changes pertaining to community development lending would not have any affect on these Connecticut lenders. The mega-banks simply come in and buy up the market. Community development investing is even worse. It’s impossible for community banks to compete in these conditions. What good is it to have a requirement that is unrealistic? Make the mega-banks generate community development loans and investments. The community banks should be relieved of the community development lending and investment test altogether. In its place, community banks should be expected to render community services by participation in groups that target LMI people and areas. Also, underserved areas as defined by HUD should be added to lending test parameters.

Respectfully submitted,

Len Suzio