

September 8, 2004

The Honorable Donald E. Powell  
Chairman  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> St NW  
Washington DC 20429

Dear Chairman Powell:

The undersigned organizations urge you to withdraw the proposal of the Federal Deposit Insurance Corporation to quadruple (to \$1 billion) the minimum asset size for applying the full Community Reinvestment Act (CRA) exam to state chartered non-member banks, which would have a devastating impact on lending, housing, and access to financial services in urban and rural communities across America.

CRA has been instrumental in increasing homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities. The FDIC proposal would dramatically diminish banks' obligation to reinvest in their communities. It revises the CRA rules to make the less rigorous CRA exam applicable to an additional 900 banks with assets totaling \$401 billion. Adoption of the FDIC measure is likely to mean the loss of hundreds of millions of dollars in loans, investments, and services for local communities and would disproportionately impact rural areas and small cities where the market presence of these mid-sized banks is often great.

FDIC rulemaking on this matter is flawed both in terms of procedure and substance. The draft proposal was adopted on a divided vote at a board meeting that was called on unusually short notice, and that provided some board members with only limited opportunity for prior review. The board provided a minimal 30-day public comment period. This comment period is unusually and unnecessarily brief for consideration of such a controversial rule and began during a traditional summer vacation month. Haste to enact proposed changes as soon as one month after the close of the comment period could be seen by consumers as evidence of disregard for public input.

The FDIC rule, as proposed, would greatly weaken or eliminate extremely important standards necessary to ensure that CRA is effective. The proposed change would weaken the lending test and also eliminate the investment and service parts of the CRA exam for FDIC supervised banks that have assets between \$250 million and \$1 billion.

The FDIC's plan to add a weak or trivial community development criterion in lieu of the investment and service tests applicable today (that collectively count for 50 percent of a bank's CRA grade) is a wholly inadequate substitute for the present exam standards. The new factor permits these banks to satisfy the community development criterion by choosing whether to provide community development loans, investments or services instead of assessing their performances for all three categories, as is currently required. This change is likely to result in a significant drop-off of lending, investments and services for affordable housing development, Low Income Housing Tax Credits, community

service facilities, such as clinics, and economic development projects.

Another harmful element in the proposal is the dramatic weakening of the lending test for midsize banks which could decrease access to credit for many Americans. Under the proposal banks with assets between \$250 million and \$1 billion will no longer be subject to the rigorous examination of their mortgage, small business, small farm, and consumer lending. Further, these banks would no longer be required to collect and report essential lending information such as small business lending by census tracts or revenue size of the small business borrowers. Without data on lending to small businesses and small farms, it is impossible for the public to know how well these midsize banks help to meet the credit needs of their local communities.

We also fear that the elimination of the service test will have harmful consequences for low- and moderate-income consumers. It takes away the regulatory incentive for midsize banks to maintain and open new branches and ATM machines serving low-and moderate-income geographies. It is also likely to undercut the extent to which these banks provide affordable banking services and checking and savings accounts necessary for bringing unbanked households into the financial mainstream or money transfer and remittance services, which are particularly important to new immigrants and ethnically diverse communities.

According to the FDIC data, the rule change would mean that only 223 of 5,291 (about 4% ) of all FDIC-supervised banks would continue to receive the full CRA exam. It would affect some parts of the U.S. more drastically than others. Ninety-nine percent of rural FDIC-supervised banks would be exempted from full coverage. We calculate that no FDIC-supervised banks in eight states (Alaska, Arizona, Idaho, Minnesota, Montana, New Mexico, West Virginia and Wyoming) would be fully covered by CRA. Thirty-six other states would have five or fewer banks facing full CRA scrutiny.

In addition, this proposal would broaden the definition of community development in rural areas so that banks could receive CRA “credit” even if these activities are not particularly directed at serving the needs of low- and moderate-income households, as is presently required. The proposal would be particularly harmful to rural counties, which already have fewer banks. Rural counties have 4.3 banks compared to 10.9 banks in urban counties, on average.

The FDIC proposal and the rule recently adopted by the OTS diminish the CRA requirements for midsize banks and work at cross purposes with the Act’s statutory mandate. As you know, this mandate requires that banks, regardless of their asset size, have a continuing and affirmative obligation to serve the credit and deposit services needs of their local communities, including low- and moderate-income areas.

We urge you to withdraw this proposal.

Sincerely,

AARP  
ACORN  
AFL-CIO  
American Corn Growers Association

Center for Community Change  
Center for Rural Strategies  
Coalition for Responsible Lending  
Coalition of Community Development Financial Institutions  
Consumer Federation of America  
Consumers Union  
Enterprise Foundation  
Federation of Southern Cooperatives  
Housing Assistance Council  
Leadership Conference on Civil Rights  
Local Initiatives Support Corporation  
NAACP  
NAAHL  
National Association of Consumer Advocates  
National Association of Counties  
National Association of Housing and Redevelopment Officials  
National Catholic Rural Life Conference  
National Community Action Foundation  
National Community Capital Association  
National Community Development Association  
National Community Reinvestment Coalition  
National Congress of American Indians  
National Consumer Law Center  
National Council of La Raza  
National Fair Housing Alliance  
National Family Farm Coalition  
National League of Cities  
National Low Income Housing Coalition  
National People's Action (NPA)  
National Training and Information Center (NTIC)  
National Tribal Development Association  
National Urban League  
Rural Coalition/Coalición Rural  
Stand Up for Rural America  
United Auto Workers  
U.S. Conference of Mayors  
U.S. Public Interest Research Group