

NATIONAL RURAL HOUSING COALITION

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October 19, 2004

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

RIN Number 3064-AC50

Dear Mr. Feldman:

I am writing on behalf of the National Rural Housing Coalition (NRHC) to voice opposition to the Federal Deposit Insurance Corporation's (FDIC's) proposed changes to the Community Reinvestment Act (CRA) regulations. The Coalition believes the proposed changes will severely weaken CRA and have a particularly adverse impact on low-income rural communities. We therefore urge you to withdraw the CRA regulatory changes that were proposed on August 20th.

The NRHC has been working for more than thirty years to promote better housing and community facilities for low-income rural people. Our membership of more than 250 includes community activists, public officials and non-profit housing developers that work through the Coalition to promote federal policies and programs designed to ensure that rural people have access to decent and affordable homes, clean drinking water and basic community services.

Banks are critical partners in our efforts to promote the development of affordable housing and homeownership in rural communities. CRA provides an incentive for financial institutions to reach out and develop relationships with community based housing organizations and the CRA is critical in keeping banks committed to providing services and products designed specifically for low- and moderate-income consumers. While some banks might continue to serve low- and moderate-income markets without the incentive of CRA, we firmly believe that most institutions would not.

NRHC Opposes Exempting Mid-Sized Banks from the Investment and Services Tests

Current CRA regulations require that banks with assets of \$250 million or more must satisfy CRA performance evaluations that look at the lending, investing, and services

provided by the bank to low- and moderate-income communities in their service area. Small institutions, defined under current regulations as banks with less than \$250 million in assets, are subject to a streamlined CRA exam that does not include either an investment test or a services test. Under the proposed changes the asset threshold for small banks would increase from \$250 million to \$1 billion, thus allowing more institutions to take advantage of the streamlined CRA exam.

Ninety-nine percent of the FDIC regulated banks in rural areas have assets of less than \$1 billion and would therefore be exempt from these two critical tests. This would have a devastating impact on investments in rural America and severely hamper the work of NRHC members. It is clear to our members that without the incentive of CRA, many banks will discontinue or drastically reduce the level of investments and services they provide to low- and moderate-income individuals and communities.

The FDIC's proposal to replace the investments and services test with a new community development test for mid-sized institutions is not sufficient to stimulate new investment. The proposal would only require that institutions engage in one of the three activities – lending, investing or services – and we firmly believe that all three activities are vital and banks should be required to engage in these activities throughout their service area.

Spurred by CRA requirements, lenders frequently support, through investments, loans and other financial support, the work of rural housing organizations. It is through these partnerships that banks create new financial products targeted to underserved market niches that banks on their own can not reach effectively.

The following are examples of collaborations between rural housing organizations and banks that would be put at risk if the proposed changes were enacted.

Southern Mutual Help Association (SMHA), based in New Iberia Louisiana, works with a consortium of eight bank partners that are currently lending, investing and providing services in rural low-income communities throughout SMHA's Louisiana service area. While four of the principal bank investors in the consortium are currently subject to the full CRA test only one would continue to be subject to the full exam if the asset threshold for small banks were raised to \$1 billion. Bankers have told SMHA that without the incentive of CRA, they would be more likely to provide "charity" to community based organizations like SMHA and less likely to provide serious investments that have the potential to impact a bank's bottom line. A reduction in the investment activity of its bank partners would result in an immediate reduction in the lending activity that SMHA is able to engage in.

People's Self Help Housing (PSHH) provides self-help housing assistance to low-income rural families along California's Central Coast. Since founded in 1970, PSHH has assisted in building 1,000 homes, developed more that 1,000

rental units, and assisted in the rehab of more than 3,000 homes. Their service area is very rural and includes a number of small communities between 2,500 to 10,000 – communities that traditionally lack access to bank services. Banks have been critical financial partners in PSHH's work. They work with large banks like Wells Fargo and Union as well as smaller community based institutions and all of these institutions look to the CRA credit they get for their support of self-help housing efforts. PSHH can identify at least ten banks, with assets of less than \$1 billion that would severely reduce or withdraw their support from PSHH if the CRA incentive were dropped.

Southern Maryland Tri-County Community Action Committee (SMTCCAC) provides self-help housing, weatherization and housing rehabilitation and a range of social service programs to rural communities throughout Southern Maryland. SMTCCAC has seen first hand how CRA has brought banks to the table of deals that they otherwise would have considered 'un-bankable'. All of the banks they work with have less than \$1 billion in assets and would thus be exempt from the full CRA test if the proposed rule were put into effect. While SMTCCAC believes that some of their bank partners will continue doing business in their targeted low-income communities, most will pull back significantly if there is no CRA obligation to do so.

These are just a few examples of the partnerships between rural non-profit housing organizations and banks that would be put at risk if mid-sized banks were no longer subject to the rigors of a full CRA exam.

Without the leverage of CRA, NRHC members firmly believe that many of their existing bank partners would severely reduce or eliminate their participation in investments targeted to low-income communities.

NRHC Opposes Adding "Rural" to the Definition of Community Development

NRHC opposes the FDIC proposal that any community development activity in a rural area be deemed as a qualified CRA activity. Though we clearly share FDIC's concern that rural areas need greater access to financial capital and services, the proposed regulations would allow a bank to overlook the needs of low- and moderate-income individuals and communities as long as the bank was serving a "rural" community.

Though the economy of rural America benefited from the economic expansion of the 1990s, economic stagnation and poverty remain problems in many rural communities and the nation's non-metro poverty rate continues to exceed the metro poverty rate. Approximately 7.8 million individuals residing in the non-metro U.S., including a disproportionate number of minorities, are poor and all but 11 of the highest poverty rates in the nation are found in non-metro areas.

The CRA was enacted in 1977 to ensure that all residents of a bank's or thrift's service area – including low- and moderate-income individuals – have access to bank services. This is a cornerstone of the CRA and it is essential in ensuring that bank investments, loans and services are made available to current CRA regulations to provide an incentive for banks, either directly or through community partners like NRHC members, to serve these low income populations.

While NRHC supports efforts to direct additional bank activity to rural communities, we oppose any effort that would weaken the requirement that CRA eligible activities be targeted to low- and moderate-income households.

NRHC Opposes Any Weakening of Current CRA Rules

CRA provides one of the few tools by which community based organizations can influence the bank merger process and we will oppose regulatory changes designed to allow more institutions to bypass the full CRA exam process.

Many of our rural communities are already struggling with the loss of small and medium locally-controlled banks as the financial services industry continues to consolidate through bank mergers. As rural banks are purchased by larger institutions, the lending, investing and grant making decisions are transferred from the local community to corporate headquarters located in urban centers where there is relay. This trend has had a significant impact on low- and moderate-income rural communities and resulted in the loss of community lending programs and local loan officers and a reduction in community development resources.

While CRA can not put an end to this trend of bank mergers, it does provide community based organizations with a voice in the process. CRA allows community based organizations to hold financial institutions accountable to the communities in which they are doing business and we oppose any weakening to this tool.

I appreciate the opportunity to submit comments on the proposed rule on behalf of NRHC and I strongly recommend that the proposed rule be withdrawn and that no action be taken on the current regulations governing CRA.

Sincerely,



Robert A. Rapoza
Executive Secretary