

NATIONAL RURAL HOUSING COALITION

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January 21, 2005

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington, DC 20552

Attention No: 2004-53 & 2004-54

To Whom It May Concern:

I am writing on behalf of the National Rural Housing Coalition (NRHC) to voice opposition to the Community Reinvestment Act (CRA) rule changes proposed by the Office of Thrift Supervision (OTS). NRHC is concerned about the OTS decision to raise the asset limit for small thrifts from \$250 million to \$1 billion thus exempting many thrift institutions from the oversight of the three part CRA exam. The additional rule changes being proposed will go even further to weaken CRA by diminishing the power of the three-part CRA exam still required of large thrifts and by granting CRA credit for community development activities in rural areas whether or not the development benefits a low- or moderate-income population.

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 and thrifts 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 and thrifts might continue to serve low- and moderate-income markets without the current incentive of CRA, we firmly believe that most institutions would not.

We cannot support the proposed changes put forward by the OTS because we believe that in an effort to provide greater flexibility to thrifts the changes proposed by OTS would undermine the core mission of CRA which is to ensure that banks and thrifts are adequately serving low- and moderate-income individuals and communities in their service area.

NRHC opposes the OTS proposal that any community development activity in a rural area be deemed as a qualified CRA activity. Though we clearly share OTS's concern that rural areas need greater access to financial capital and services, the proposed regulations would allow a thrift to overlook the needs of low- and moderate-income individuals and communities as long as the thrift 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 also opposes the proposal to grant large thrifts the ability to design their own CRA test and apply the lending, investment and services tests as they see fit. We strongly urge the OTS to maintain the current three part CRA test for large thrifts and we believe that all institutions should be required to stand up to the same scrutiny. Without the incentive of the full CRA test, many thrifts will discontinue or drastically reduce the level of investment and services they provide to low- and moderate-income individuals and communities. The OTS proposal would grant thrifts the freedom to design their own CRA tests and determine the weight that would be given to lending, service and investment test. We are troubled by this proposal and believe it would lead to a decline in the willingness of banks participation in a range of service and investments activities that communities rely on. We firmly believe that all three activities are vital and banks should be required to engage in these activities throughout their service area.

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,

A handwritten signature in black ink, appearing to read "Robert A. Rapoza". The signature is fluid and cursive, with the first name being the most prominent.

Robert A. Rapoza
Executive Secretary