



FPB Bancorp, Inc.™

March 26, 2004

Jennifer J. Johnson
 Secretary
 Board of Governors of the Federal Reserve System
 20th St & Constitution Ave.
 Washington, D C 200551

RE: Proposed Revisions to the Community Reinvestment Act Regs. – Docket R-1181

Dear Mr. Feldman

I am writing to support the federal bank regulatory agencies' (Agencies) proposal to enlarge the number of banks and saving associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to increase the asset threshold from \$250 million to \$500 million and to eliminate any consideration of whether the small institution is owned by a holding company. This proposal is clearly a major step towards an appropriate implementation of the Community Reinvestment Act and should greatly reduce regulatory burden on those institutions newly made eligible for the small institution examination, and I strongly support both of them.

When the CRA regulations were rewritten in 1995, the banking industry recommended that community banks of at least \$500 million be eligible for a less burdensome small institution examination. The most significant improvement in the new regulations was the addition of that small institution CRA examination, which actually did what the Act required: had examiners, during their examination of the bank, look at the bank's loans and assess whether the bank was helping to meet the credit needs of the bank's entire community. It imposed no investment requirement on small banks, since the Act is about credit not investment. It added no data reporting requirements on small banks, fulfilling the promise of the Act's sponsor, Senator Proxmire, that there would be no additional paperwork or recordkeeping burden on banks if the Act passed. And it created a simple, understandable assessment test of the bank's record of providing credit in its community: the test considers the institution's loan-to-deposit ratio; the percentage of loans in its assessment areas; its record of lending to borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of its loans; and its record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment areas.

Since then, the regulatory burden on small banks has only grown larger, including massive new reporting requirements under HMDA, the USA Patriot Act and the privacy provisions of the Gramm-Leach-Bliley Act. But the nature of community banks has not changed. When a community bank must comply with the requirements of the large institution CRA



examination, the costs to **and** burdens on that community **bank** increase dramatically. In **looking** at my bank, converting to the large **institution** examination requires, among other things, that we devote additional staff time to documenting services **and investments, which we currently do not** do, and begin to **geo code all of our** loans that **might** have CRA value. This imposes a dramatically higher regulatory burden that **drains** both **money** and personnel **away** from helping to meet the credit needs of the **institution/s** community.

I believe that it is **as true** today **as it was** in 1995, **and in 1977 when** Congress enacted CRA, that a community bank **meets** the credit needs **of its community** if it makes **a** certain amount of loans relative to deposits **taken**. A community **bank** is **typically** non-complex; it takes deposits and **makes** loans. Its business activities are usually focused on **small, defined** geographic *areas* where the bank is known in the community. The **small institution** examination **accurately** captures **the** information necessary **for** examiners to assess whether a community bank is helping to meet the credit needs of its community, and nothing more is required to satisfy the **Act**.

As the Agencies **state** in their **proposal, raising** the small institution **CRA** examination threshold to \$500 million makes **numerically more** community **banks** eligible. **However, in reality raising** the asset threshold to \$500 million and eliminating the holding company limitation would retain **the** percentage of industry **assets** subject to **the large** retail institution test. It would decline only **slightly**, from a little more than 90% to a little less **than 90%**. **That** decline, though **slight**, would **more** closely **align** the current distribution of assets between **small and large banks** with the distribution that **was** anticipated when the Agencies adopted **the** definition of "small institution." **Thus, the** Agencies, in **revising** the CRA regulation, are **really** just preserving the *status quo* of **the** regulation, which **has** been altered by a **drastic** decline in the number of **banks**, inflation **and an enormous** increase in the size of **large** banks. I believe that the Agencies need to provide **greater relief** to community banks **than** just preserve the *status quo* of **this** regulation.

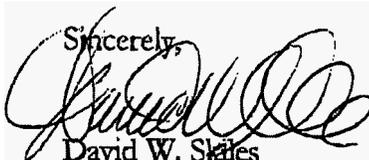
While the **small** institution test **was** the most **significant** improvement of the revised CRA, it was wrong to limit its application to **only banks** below \$250 million in assets, **depriving** many community banks from **any** regulatory **relief**. Currently, a **bank with** more than \$250 million in assets faces significantly more requirements **that substantially** increase regulatory **burdens** without consistently producing additional benefits **as** contemplated by the Community Reinvestment **Act**. In today's **banking market**, even a \$500 million bank often **has only a** handful of branches. I recommend **raising** the asset threshold for the **small** institution examination to at least \$1 billion. **Raising** the limit to \$1 billion is appropriate for **two** reasons. First, keeping the **focus** of **small institutions** on lending, which the small institution examination does, **would be** entirely consistent with the purpose of the **Community Reinvestment Act, which** is to ensure that **the** Agencies evaluate how **banks** help to meet the credit needs of the communities they serve.

Second, raising the limit to \$1 billion will have **only a small** effect on the amount of **total industry assets** covered under the more comprehensive large **bank** test. According to the Agencies' own findings, **raising** the limit **from** \$250 to \$500 million would reduce **total industry** assets covered by the **large bank** test by less than one percent. According to December 31, 2003, Call Report data, **raising** the limit to \$1 billion will reduce the amount of assets subject to the much more burdensome large institution test by **only 4%** (to about

85%). **Yet, the additional relief provided would, again, be substantial,** reducing the compliance burden on **more than 500 additional banks and savings associations** (compared to a \$500 million limit). Accordingly, **I urge** the Agencies to **raise the limit to** at least \$1 billion, providing **significant** regulatory relief while, to **quote the Agencies in the proposal,** not diminishing **in any way the obligation** of all insured depository **institutions** subject to CRA to help meet **the** credit needs of their communities. **Instead, the changes are meant only** to address the regulatory burden **associated with evaluating institutions under CRA."**

In conclusion, I **strongly** support increasing the asset-size of **banks** eligible for the small **bank** streamlined CRA examination process **as a vitally important step** in revising **and** improving the CRA **regulations** and in reducing regulatory burden, **I also support eliminating the separate** holding company qualification **for the small institution examination,** since it places small community **banks** that **are part** of a larger holding company at a **disadvantage to their** peers **and has no legal basis in the Act. While** community **banks, of come, still will** be examined under CRA for their record of helping to meet the credit **needs** of their communities, this **change** will eliminate **some** of the **most** problematic and burdensome elements of the current **CRA** regulation **from community banks that are drowning in** regulatory red-tape.

Sincerely,



David W. Skates
President & CEO