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September 3rd, 2004

Ms. Jennifer Johnson
Secretary
Board of Governors of the Federal Reserve System
20th St and Constitution Ave., NW
Washington, D.C. 20551
Docket Number R-1205

To Whom It May Concern;

I am writing from Woadstoclc Institute to comment on the proposal to use updated Office of Management and Budget (OMB) definitions for metropolitan statistical areas, which in some cases include a new geographic unit for "metropolitan divisions," to define CRA assessment areas. Woodstock Institute is a Chicago-based research and policy organization that bas worked extensively on community reinvestment regulation. We feel this proposal threatens to facilitate redlining in CRA assessment areas.

According to the proposal, banking regulators would adopt new OMB definitions of metropolitan statistical areas (MSAs) for CRA analysis and bank assessment: area designation. The most concerning aspect of the OMB changes is the addition of a geographic unit for "metropolitan division." Twelve large MSAs that: have some core region of at least 2.5 million people will now be subdivided into metropolitan divisions. These metropolitan divisions are defined as groups of one or more contiguous counties that contain an employment center or centers that are closely connected through commuting ties. Together the metropolitan divisions form the overall MSA. Bank regulators will use metropolitan divisions to calculate median family income levels for CRA analysis, and financial institutions will be allowed to designate one or more metropolitan division, up to an entire MSA, as their assessment area.

While OMB's goal in creating the metropolitan division may be "to recognize that in large MSAs, demographic and economic conditions vary wildly," we fear that allowing banks to define their assessment areas using metropolitan divisions may facilitate redlining and give financial institutions stronger rationale for excluding portions of an MSA that would previously have been included in an assessment area.

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In the Detroit-Warren-Livonia MSA, for example, there are two metropolitan divisions. One is Wayne County, where Detroit is located, and the other is the suburban collar counties surrounding Wayne. Wayne County has a median family income far lower than the surrounding counties. While separating these two metropolitan divisions may have the effect of more accurately targeting low- and moderate-income census tracts in both, it also isolates Wayne County, and sets up a condition where financial institutions can easily exclude it from their CRA assessment areas. If it is too difficult for a financial institution to lend or build branches in the lower-income Wayne County, it may choose to shift resources to the more affluent suburban Detroit metropolitan division and remove Wayne County from its assessment area altogether. Such a scenario is very possible under the proposed rule.

Although other MSAs do not offer examples as dramatic as Detroit, we feel this proposal sets up a condition where banks have increased rationale and regulatory backing for excluding less desirable parts of MSAs from their assessment areas and shifting business away from those communities. While we support more accurate targeting of low- and moderate-income communities, we do not support allowing financial institutions to use metropolitan divisions to designate assessment areas. We ask you to reconsider this proposal.

'Sincerely,

Geoff Smith
Project Director

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