May 9, 2005

To: Files

Subject: Conference calls regarding the Board's proposed rules under the Community Reinvestment Act

From: Kathleen C. Ryan

On April 25, 2005, I discussed the Board's proposed rules under the Community Reinvestment Act (CRA) in separate conference calls with bankers and community groups. I did not express any views during the calls, but rather, asked questions to facilitate discussion about community development in rural areas. I also encouraged the participants to send written comment letters to the agencies. Joan Garton, Michelle Bell, Patricia Cosby, and Frances Stanley of the Federal Reserve Bank of Richmond arranged the conference calls, and listened to, but did not otherwise participate in the discussions during the calls.

Participants (Bankers)

Middleburg Bank: A. Gail Keen
Shore Bank: Brenda Wallace
Chesapeake Bank: Cecilia Klink
Farmers & Merchants Bank: Chuck Foltz
Virginia Financial Group: Donna Rosson
First Bank: Gayle Davison
Alliance Bank: Jacqueline Thompson
Gateway Bank: James Hinton
The Marathon Bank: Kay Clark
Central Virginia Bank: Leslie Cundiff
First Bank & Trust Co.: Leton Harding
Gateway Bank: Mark Brothers
Benchmark Community Bank: Mike Arthur
Citizens South Bank: Steve Huffstetler
Bank of Essex: Suzanne Rennolds
Capital Bank: Wes Brewer
Bradford Bank: William Backstrom
Highlands Union Bank: Wayne Perry
FNB Southeast: Mark Hill
Bank of the Commonwealth: Kemp Savage
Mercantile Bank: Mary Jo Greenley
Citizens Bank & Trust: Kristie Martin
Bank of Hampton Roads: Francine Whitfield
Four Oaks Bank & Trust: Wanda Ray
The Bank of Marion: Deborah Cato
Valley Bank: Mary P. (Gill) Hundley

Mercantile Bank: John Daniel
Mercantile Bank: Linda Brown
Fauquier Bank: Edna Brannan
James Monroe Bank: John Brough
First Bank & Trust: Eric Moore
Community Bank of Tri County: Dave Sjogren
Waccamaw Bank: Gracie McClary
Eagle Bank: Kimberly Eck
Bank of Tazewell County: Shelby Evans

The participants discussed the proposal to amend the definition of community development to include affordable housing and revitalization and stabilization for "underserved rural areas." One banker stated that he does not believe CRA consideration is necessary to get infrastructure projects going in his community. Some bankers reported having difficulty showing examiners that loans to businesses were sufficiently targeted to create jobs for low- or moderate-income people.

Some bankers stated that CRA should encourage affordable housing in underserved rural communities, noting that affordable housing is lacking in their communities. They stated that people from urban areas buying homes and land in rural communities drive up prices, so that long time residents cannot afford to buy a home. (A banker from an urban area, and one from a rapidly developing exurb, said this was a problem in their assessment areas, as well.) Some bankers stated that there was a scarcity of *rental* housing for low- or moderate-income people in rural areas. Others stated that rural areas lack affordable housing for elderly people, who may be just above the threshold for moderate-income for CRA purposes.

With respect to the question posed in the proposal, should the agencies define "underserved" and if so, how, one banker suggested comparing census tract income to the median family income of the relevant county (rather than to the non-metropolitan portion of the state as in the current CRA rules).

Participants (Community Groups, CDCs)

Interfaith Housing Alliance: James Upchurch, President
30901 Development Corp: Francine Cayruth
Affordable Housing Coalition: Gloria Bowden, ED
People, Inc.: Phil Black
NCCDI: Abdul Rasheed
SC Association of CDCs: Bernie Mazyck
SC Association of CDCs: Tammy Wilson
CDC Initiatives: Shaunte Evans
Santee-Lynches Affordable Hsng: Luis Rodriguez
Eau Claire CDC: Michael Manis
Five Rivers CDC: Beulah White

The participants discussed the proposal to amend the definition of community development to include affordable housing and revitalization and stabilization for "underserved rural areas." Some stated that the problem identified in the proposal (that rural communities lack low-or-moderate-income census tracts, yet have needs for community development) is serious. A few stated that the agencies should define "rural areas" according to criteria used by the U.S. Department of Agriculture.

Some participants stated that banks should not receive CRA consideration for infrastructure projects, because money is available for those projects from other sources. One noted that if CRA consideration were to be given for infrastructure projects in middle-income census tracts, banks should have to demonstrate the benefits to low-or-moderate-income people (for example, through affordable housing and jobs). Others stated that instead of infrastructure activities, banks should be supporting economic development by making very small loans to entrepreneurs. A few mentioned that affordable housing is a problem in rural areas.

Other participants stated that they did not favor allowing CRA consideration in middle-income rural tracts that have been designated for revitalization by local government (another question posed in the agencies' proposal). They believe such designations result in gentrification that drives out long-time residents and small businesses that serve low-or-moderate-income people.

One participant stated that the proposed elimination of a separate service test, which considers a bank's branch distribution and branch closings, would have a more severe impact on rural areas than on urban areas. This participant stated that rural areas tend to have fewer branches than urban areas.