

From: "Isuzio" <Isuzio@sbcglobal.net> on 03/14/2005 01:26:59 PM

Subject: Community Reinvestment Act

RE: Docket No. R-1225

Dear Ms. Johnson,

I consult with many community banks on CRA. In my opinion, the proposed changes would do more harm than good to community banks.

First, one of the primary tools for evaluating bank lending performance under CRA is the performance context data specified in the regulation. One of the most important elements in performance context data is the lending experience reported by lenders under CRA. When we help our clients evaluate their performance we always look at the reported lending activity in our client's assessment area. For example, we now can compare our client's penetration rate in the LMI geographies to market reported data that we know contains banks of similar size (as well as large banks). If the new proposed small bank definition is adopted by the regulatory agencies the only data available for comparison will be large bank activity and the agencies will have eliminated the ability of lenders and the regulatory agencies themselves to compare banks under \$1 billion to their peers (which can specifically be done on a county basis currently). The only reported data will be that of large lenders which will be a serious handicap in forming judgment about small bank performance. It seems this would be a case of the regulatory agencies shooting themselves in the foot. Regulators, community groups and the banks themselves need data from more than just large banks as performance benchmarks. If the proposed changes are implemented a valuable analysis tool will be seriously impaired.

Second, the "savings" for banks, which appears to be a primary justification for the proposed changes, are minimal at best, and non-existent at worse. The cost of software to compile and report CRA lending activity is readily available for under \$1000 per year (we are not a software vendor, but we do know of excellent packages that are not costly at all). Moreover, since non-reporting banks will still be expected to comply with CRA lending responsibilities, how can any bank have a good-faith CRA function if it doesn't collect its CRA lending data to begin with? So banks who take CRA seriously will get little or no cost saving benefit.

Third, our experience has shown us that many non-reporting lenders are very lax about their CRA responsibilities. The old adage, "out of sight, out of mind" seems to apply here. Most small community bank CRA officers have other responsibilities that require their day to day attention. If CRA is not at least an annual reporting exercise many community bankers will be tempted to defer it until it can't be ignored. By exempting a large number of banks from not reporting under CRA the regulatory agencies will be encouraging this attitude.

Fourth, the biggest problems we have observed with CRA involve community development lending and investing. About one-third of the reporting lenders in 2003 did not originate even one community development loan. There are a number of reasons for this based on our experience. First, the competition in the urban Northeast is intense and many very large lenders tend to "buy up" the few opportunities in this market (for example, the 2003 data show that more than 90% of the community development loans made by Connecticut based lenders were originated by one lender!). Second, the regulations don't allow the reporting of a loan as community development if it qualifies as a small business loan. This means mostly multi-million dollar loans qualify and smaller loans are disqualified. This introduces a bias into the results in favor of very large lenders. While it is true that banks can point out the community development aspects of reported small business loans during an examination, they don't get acknowledged for reporting purposes thereby potentially understating the true amount of community development lending and introducing a bias in the reported data in favor of large lenders. Community development investing is even more difficult for small banks. We think the entire concept of community development should be reconsidered and redefined.

Fifth, we believe there continues to be much confusion about various areas of CRA that should be a priority. Moreover, the definition of small business loan excludes many small business loans for technical reasons. For example, many small business loans are secured directly or indirectly by second mortgages on personal residences. In most cases, this disqualifies a loan as reportable. In addition, there is some

confusion about whether residential mortgages *indirectly securing* (i.e., by virtue of a guarantee) a loan disqualify that loan from reporting (the new HMDA regulations identify indirect mortgages as a critical distinction for HMDA reporting of refinancings). We think there should be clarification about this and other issues and we believe regulations should not disqualify a large number of small business loans from reporting because of second mortgage issues.

We believe the CRA is an important regulation that requires banks to demonstrate they are meeting the needs for credit services in their markets and we believe the reported data is very valuable to bankers who want to understand their loan markets. Drastically curtailing the number of reporting lenders will remove very substantial market data that is a tool for bankers, regulators and the community to evaluate bank performance.

Respectfully submitted,

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