

May 11, 2005

Jennifer J. Johnson
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Docket Number R-1225

To Whom It May Concern:

I am writing on behalf of the National NeighborWorks® Association (NNA) to voice our concern about the changes proposed to the Community Reinvestment Act (CRA) by the OCC, the Federal Reserve Board, and the FDIC. In particular, we are opposed to raising the asset threshold from \$250 million to \$1 billion, believe safeguards must be taken through the new community development test to protect investment in low- and moderate-income communities, specifically through an enforceable three-part test, and feel that any new definition of a CRA qualifying rural area must include only “distressed” rural areas. Although NNA is pleased by your retraction of the more extreme changes advocated by the OTS and FDIC last year, we believe you can do more to protect the low- and moderate-income communities that rely on bank loans, investments and services, and who will most certainly suffer from a weakening of the CRA.

NNA is a national association of over 160 NeighborWorks® organizations (NWOs) that advocate for better neighborhoods and housing for low- and moderate-income individuals and families. Our member NWOs use Neighborhood Reinvestment Corporation funds to leverage private dollars in order to create new homeowners, revitalize distressed communities, and build single family and multi-family housing for low- to moderate-income families.

Since 1996 the NeighborWorks® Campaign for Home Ownership has assisted 70,000 households to become homeowners, 89 percent of whom were low- or moderate-income. In addition, our network provided homeownership counseling to over 420,000 individuals. These impacts could not have been achieved without the significant participation of our bank and thrift partners – as investors, lenders and service providers.

Spurred by CRA requirements, lenders frequently work with NWOs to capitalize loan pools or create new financial products targeted to underserved market niches that banks on their own can not reach effectively. The CRA test encourages lenders to become involved in community education and financial literacy efforts and CRA has forced institutions, either directly or with the help of community based organizations, to make a range of financial services and products available to low and moderate income communities within their service area.

We are opposed to any increase in the asset threshold for banks to qualify for the streamlined community development test and the indexing of the threshold to inflation. Nevertheless, we are pleased that you have dropped the proposal to allow intermediate-small banks with assets between \$250 million to \$1 billion to choose between loans, investments and services, and have recommended that this new class of banks be subject to a separate evaluation and rating process.

Under the new regulations, 95 percent of the state chartered banks regulated by the FDIC would be able to flexibly determine the needs of their communities. The proposed rule would have an even deeper impact in rural communities where 99 percent of the FDIC regulated banks have assets of less than \$1 billion. This could have a negative impact on investment in the communities we serve and on the community development industry as a whole. Any new criteria must ensure that significant declines of community development financing do not occur.

We strongly urge you to utilize the three-part CRA test for intermediate-small banks. Although the two-part test, including a separate community development test, is a significant improvement from the FDIC's prior proposal to make community development merely a criterion of the current streamlined small bank test, we firmly believe that all three activities are vital and banks should be required to engage in these activities throughout their service area. Moreover, the NNA is troubled by the new language granting banks the flexibility to determine whether loans, investments, or services are most needed in their communities and to respond as they see fit. Without the incentive of the full CRA test, many banks would discontinue or drastically reduce the level of investment and services they provide to low- and moderate-income individuals and communities.

Particular attention should be paid to protecting investment in low- and moderate-income communities. Investments in affordable housing and economic development open up new markets for bank lending and services by building wealth for families and communities. Bank investment is essential to the ability of NWOs to impact their communities and would most certainly decline under a weakened CRA community development test.

For example, Affordable Housing Resources (AHR) in Nashville, TN relies on area banks to invest in a first mortgage loan pool that has provided over \$11 million in below market mortgages to low income buyers and moderate income persons buying in very low income census tracts. There are many NNA members that, like AHR, rely on bank investments to support loan pools that are designed to assist low and moderate individuals and families become homeowners.

Finally, we wish to weigh in on the debate over the future definition of eligible rural areas under the CRA. NNA has previously refrained from commenting on rural definitions, but we agree that the current CRA criteria have created a disincentive to investing in rural communities. We believe under any new criteria only "distressed" rural areas should be targeted. Of the four alternative definitions for distressed or underserved

rural areas proposed by the Fed, the OCC and FDIC, only the option that recommends including all rural census tracts at or below 100 percent of area median income is inconsistent with the spirit of the CRA.

We feel the best option is one that circumscribes rural tracts that meet a definition based on 80 percent of statewide median income or 90 percent of area median income. We then ask you to consider whether combining one of these two LMI definitions with CDFI criteria, adding in census tracts that meet the CDFI standards for poverty rate, unemployment rate, or net population loss, will best target the most underserved rural areas.

I appreciate the opportunity to submit comments on the proposed rule on behalf of NNA. This letter was drafted using the collaborative efforts of the NNA membership, a listing of which is attached.

Sincerely,



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