Fairness in Rural Lending **FIRL**
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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G St. NW
Washington DC 20552
Attention: Docket No. 2001-49

October 11, 2001

To Whom it May Concern:

Fairness In Rural Lending urges the regulators to use this opportunity to re-write the CRA regulation in order to strengthen the CRA regulation for rural banks and particularly small rural banks. While small banks have recently won regulatory concessions (in Gramm-Leach-Bliley in particular), there is a good deal of evidence those small banks' records of meeting the credit needs of their communities are often inadequate. Virtually all of the "Needs to Improve" and "Substantial Non-compliance" CRA ratings in recent years have gone to banks with less than a billion dollars in assets. Even though they are examined with less rigor, banks examined under the small bank CRA exam have accounted for more than their share of less than satisfactory CRA ratings. A review of small bank CRA exams will show that banks with loan to deposit ratios as low as 40% (and sometimes even lower) regularly receive satisfactory CRA ratings. Even in states in which the average loan to deposit ratios for banks are in the 80 –100% range, 40 and 50% loan to deposit ratios are almost always described by examiners as "reasonable" without any evidence of extenuating circumstances provided.

In order to lessen the tendency of CRA examiners towards "grade inflation," Fairness In Rural Lending proposes that the regulators establish more objective criteria in the small bank exam. For example we would propose that small banks with a loan to deposit ratio that is less than 75% of their state average be assumed to have less than satisfactory CRA ratings unless specific extenuating circumstances are documented in the CRA evaluation. Likewise we would suggest benchmarks for the percentages of loans in the assessment area and loans to low and moderate-income borrowers. Specific benchmarks would make CRA evaluations more objective and less subject to grade inflation, even as examiners retained some flexibility to deal with individual circumstances.

In addition we hope the regulators will thoroughly consider the difficulties raised for rural communities by the continuing trend of the largest banks, which have very little retail presence in our rural communities, buying finance companies or subprime mortgage subsidiaries that do have a large rural presence. Because the CRA efforts of financial institutions are judged on the basis of their lending, service and investment activities in their assessment areas and their assessment areas are virtually all limited to the regions surrounding the large urban centers, rural areas are being unfairly penalized by current interpretations of the CRA regulations.

It is gradually becoming accepted that the Community Reinvestment Act is undermined and fair lending laws are being violated when financial institutions, which have subprime lenders, do not have some type of effective "referral up" program if they market their subprime products overwhelmingly towards people who belong to a protected class. A corollary issue for which the regulators will have to provide some leadership is the extent to which rural communities are being harmed as the largest financial holding companies bring their considerable marketing power to bear on rural communities; but only for the purpose of promoting sub-prime products. While a sound "referral up" program provides some remedy for this problem, it is clear that the residents surrounding my community of Sparta, Wisconsin are not going to have access to the full range of prime products that CitiBank offers, just because the local Associates office is changing its name to CitiFinancial. This kind of concentration of subprime marketing power focused on rural communities is having a negative impact on our communities. Either the accepted ways of delineating assessment areas has to change to include targeted rural communities or the regulators must make consideration of the lending activities of all subsidiaries a mandatory component of CRA.

In addition, Fairness In Rural Lending is a member of the National Community Reinvestment Coalition (NCRC). We have read NCRC's extended comment letter and we support all of the positions contained in it.

Sincerely,

H. P. Van Tol

Hubert Van Tol
Co-Director