261

The Senate of the State of Texas

Senator Eliot Shapleigh
District 29

COMMITTEES:

Finance
Veterans Affairs & Military Installations
Subcommittee on Base Realignment and Closure - Chair
International Relations and Trade - Vice Chair
Infrastructure Development and Security

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Capitol Office
FAX COVER SHEET

TO: Mr. Robert Feldman
Executive Secretary
FDIC

FAX #: 202-898-3838

FROM: Katherine Saunders
Office of Senator Eliot Shapleigh

DATE: September 3, 2004 NUMBER OF PAGES (including cover page): 5

NOTES:

Please accept this comment letter by Texas State Senator Eliot Shapleigh, D - El Paso, regarding proposed changes to the Community Reinvestment Act, specifically:

RIN 3064-AC50

Please feel free to contact me at 512-463-0129 or via email at katherine.saunders@senate.state.tx.us for further information or comment.

Thank you, Katherine Saunders

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September 2, 2004

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429
Facsimile Number: 202-898-3838

VIA FACSIMILE

RE: RIN 3064-AC50

Dear Mr. Feldman:

I am Texas State Senator Eliot Shapleigh, El Paso, and I write to urge you to withdraw your proposed changes to the Community Reinvestment Act (CRA) regulations. Your proposal will significantly reduce banks' obligations to local communities and will greatly impede the goals set out by CRA to increase local community reinvestment.

CRA has been instrumental in increasing homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities. Currently, under CRA, banks with assets of at least $250 million are rated by performance evaluations that scrutinize their level of lending, investing, and services to low- and moderate-income communities. Your proposed changes will eliminate the investment and service parts of the CRA exam for state-charted banks with assets between $250 million and $1 billion.

For my community, El Paso, Texas, this means that the largest state chartered bank will no longer have the same community reinvestment obligations. In essence, El Paso, a community that only has 12 FDIC Insured banks with a presence and only 3 locally headquartered banks, will potentially lose a significant source of local reinvestment. Moreover, El Paso is already one of the least competitive banking markets in the country. The lack of banking competition in El Paso has resulted in dramatic increases in high priced mortgage loans. In fact, as the chart below shows, El Paso has the highest subprime mortgage lending rates in the country, with almost 50 percent of the mortgage refinance loans in

El Paso subprime. In a community that is already struggling to create and maintain a stable and thriving economic environment, further depleting the opportunity for local investment is devastating.

	National Urban Total (All 331 MSAs Combined)			1,763,483	25.31
1	El Paso, TX	679,622	6	1,767	47.82
2	Corpus Christi, TX	380,783	6	1,061	46.84
3	Laredo, TX	193,117	6	342	45.32
4	Killeen-Temple, TX	312,952	6	683	44.80
5	Beaumont-Port Arthur, TX	385,090	6	1,160	44.48
6	Miami, FL	2,253,362	4	10,701	42.67
7	Columbus, GA-AL	274,624	4	1,799	42.63
8	San Antonio, TX	1,592,383	6	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	4	7,577	41.86
10	Galveston-Texas City, TX	250,158	6	944	41.63
11	Fayetteville, NC	302,963	4	1,814	41.23
12	Enid, OK	57,813	6	427	40.75
13	Jamestown, NY	139,750	2	737	40.71
14	Rocky Mount, NC	143,026	4	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	2	5,218	39.36
16	Daytona Beach, FL	493,175	4	3,477	38.77
17	Danville, VA	110,156	3	802	38.53
18	McAllen-Edinburg-Mission, TX	569,463	6	1,345	37.62
19	Sumter, SC	104,646	4	734	37.33
20	Victoria, TX	84,088	6	220	37.27
21	Goldsboro, NC	113,329	4	681	37.00
22	Lakeland-Winter Haven, FL	483,924	4	3,234	36.92
23	Florence, SC	125,761	4	963	36.55
24	Pine Bluff, AR	84,278	6	364	36.54
25	New York, NY	9,314,235	2	23,104	36.50
26	Orlando, FL	1,644,561	4	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	4	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	4	14,789	36.07
29	Brownsville-Harlingen-San Benito, TX	335,227	6	795	35.97
30	Houston, TX	4,177,646	6	14,552	35.70

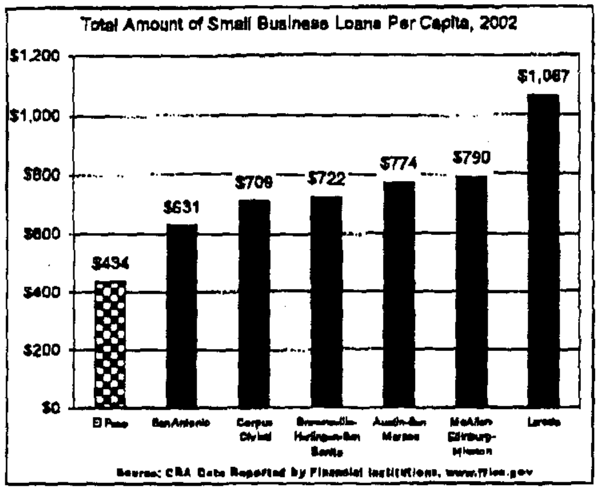
Source: John Henneberger, Texas Low Income Housing Information Services, July 2002, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change.

In place of the investment and service parts of the CRA exam, the FDIC proposes to add a community development criterion. The community development criterion would require banks to offer community development loans, investments or services. However, the community development criterion would be seriously deficient as a replacement for the investment and service tests. Mid-size banks with assets between $250 million and $1 billion would only have to engage in one of three activities: community development lending, investing or services. Currently, mid-size banks must engage in all three activities. Under your proposal, a mid-size bank can now choose a community development activity that is easiest for the bank instead of providing an array of comprehensive community development activities needed by low- and moderate-income communities. The result will certainly be fewer loans and investments in affordable rental housing, Low-Income Housing Tax Credits, community service facilities, and economic development projects.

Moreover, for an Administration that set a goal of creating 5.5 million new minority homeowners and improving the status of immigrants across the country, reducing the effectiveness of CRA is counter-intuitive, to say the least. In fact, proposals to water-down CRA that originate within the inner circle of the Administration, create great skepticism in the sincerity of the Administration's promises. How can an administration hope to promote community revitalization and wealth building when it proposes to dramatically diminish banks' obligations to reinvest in their communities?

Another destructive element in your proposal is the elimination of the small business lending data reporting requirement for mid-size banks. Mid-size banks with assets between $250 million and $1 billion will no longer be required to report small business lending by census tracts or revenue size of the small business borrowers. Without data on lending to small businesses, it is impossible for the public at large to hold mid-size banks accountable for responding to the credit needs of minority-owned, women-owned, and other small businesses. Data disclosure has been responsible for increasing access to credit precisely because disclosure holds banks accountable. Your proposal will decrease access to capital for small businesses by limiting accountability.

Reducing the requirements on banks to serve communities like El Paso and reducing the obligations of those banks to report to the community their activities reduces the voice of the community. Without understanding the activities of local banks, consumers cannot create a market of competition. A free market and vibrant entrepreneurial capitalism rely on a competitive financial environment. A comparison of six Texas MSAs in 2002 and the amount of small business loans per capita clearly demonstrates how the market concentration of banks in El Paso has hurt El Paso's economy. El Paso is outpaced by all of the other Texas MSAs in the amount of small business loans per capita, including McAllen, Laredo and Brownsville. For a community already struggling with little market competition, reducing the ability of consumers to make informed decisions regarding their financial services will even further limit stability and growth.



In sum, your proposal is in direct opposition to CRA's statutory mandate of imposing a continuing and affirmative obligation to meet community needs. Your proposal will dramatically reduce community development lending, investing, and services. You also eliminate critical data on small business lending. Two other regulatory agencies, the Federal Reserve Board and the Office of the Comptroller of the Currency, did not embark upon the path you are taking because they recognized the harm it would cause.

If your agency was serious about CRA's continuing and affirmative obligation to meet credit needs, you would be proposing additional community development and data reporting requirements for more banks instead of reducing existing obligations. A mandate of affirmative and continuing obligations implies expanding and enlarging community reinvestment, not significantly reducing the level of community reinvestment. I urge you to reconsider the ill effects that your proposed changes will have in communities like El Paso, communities already struggling to develop and maintain a stable economic environment. Do not create another obstacle to economic growth.

Very truly yours,

Eliot Shapleigh

ES/ks

cc: Randall James, Texas Department of Banking
President George W. Bush
Senator John Kerry (D - Mass.)
Senator John Edwards (D - NC)
National Community Reinvestment Coalition

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