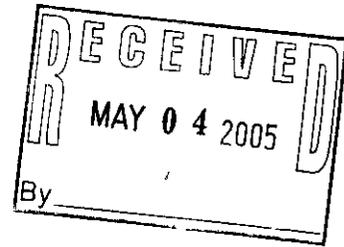




## Small Business Finance



April 27, 2005

Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> St. NW 20429  
RE: RIN 3064-AC89

To Whom It May Concern:

We urge you to enhance your proposed changes to the Community Reinvestment Act (CRA) regulations so that banks do not reduce their levels of branches, and community development loans and investments to low- and moderate-income communities. Your proposal is an improvement from the one you issued in the fall, but serious issues remain.

We are pleased that you have dropped your proposal to allow mid-size banks with assets between \$250 million to \$1 billion to offer either community development loans, investments or services. Banks must be expected to engage in all three of these essential community development activities in order to pass their CRA exams as your current proposal requires. We still believe that the current exam structure of separate lending, investment, and service tests is the most effective structure for maximizing the level of community development financing. If you move to a new exam format, you must ensure that significant declines of community development financing do not occur. You could compare past levels of community development financing to future levels after any changes to the CRA exam structure so that banks are penalized if they significantly decrease their level of community development activities.

The role of investments in communities cannot be belittled. Investments in affordable housing and economic development build wealth for families and communities and thus open up new markets for bank lending and services. The importance of investments is one reason why you must carefully develop any final proposal regarding the CRA exam structure.

CDC Small Business Finance (CDCSBF) is very familiar with CRA and the impact the legislation has had in low to moderate income communities. CDCSBF is a 26 year-old private non-profit corporation certified by the U.S. Small Business Administration to provide below-market financing to small business owners that are expanding and creating jobs. Of the more than 270 similar organizations nationwide, CDCSBF is the largest in terms of loans approved and funded and portfolio size.

In 2004, CDC Small Business Finance approved 569 SBA 504 loans, surpassing the previous national record (established by the CDCSBF) by 50 percent. The 569 loans represent over \$1 billion in small business projects and over 5,000 new jobs in our neighborhoods and communities.

We have also worked with banks in the development of two Community Development Corporations. These two organizations provide project financing and Standby Letters of Credit to deserving small businesses in Riverside, San Bernardino, Orange and San Diego Counties that are temporarily unable to obtain conventional bank and or SBA financing but demonstrate the potential to move into traditional bank financing at a later date. In particular, the program targets woman- and minority-owned small businesses. More important, the funds that are used to finance these businesses are provided by banks that receive CRA credit for investing in our lending pools.

We are also concerned that deleting a separate test for services will result in CRA exams no longer holding mid-size banks accountable for the provision of bank branches and low-cost accounts in low- and moderate-income communities. Payday lending and other high cost credit has increased in our community the last several years. In fact it two local municipalities in San Diego are attempting to curb the expansion of payday lenders in their communities through land use legislation. We cannot have CRA exams that no longer look at the number of bank branches in traditionally underserved communities. Please add the provision of bank branches as a clear factor on your proposed CRA exams for mid-size banks.

We urge you to drop your proposed elimination of public data disclosure requirements regarding community development, and small business and small farm lending. Mid-size banks are vital in many communities, particularly in medium-sized cities and rural communities. The only way to hold them accountable for providing credit to small firms and for affordable housing and community development is if the CRA data remains publicly available. The public as well as regulatory agencies will have no way to systematically measure the responsiveness of these banks to critical credit needs if you eliminate this data.

You must not change the requirement that community development in rural areas must benefit low- and moderate-income areas and distressed communities. We also urge you to apply your revised test to only banks with assets between \$250 million to \$1 billion. If you use an inflation factor each year to increase the number of banks subject to the new and abbreviated CRA exam, you will reduce the range of bank financing and services flowing to communities that need them the most. Thank you for your consideration of my comments.

Sincerely,



Kurt Chilcott  
President & CEO  
CDC Small Business Finance

cc. National Community Reinvestment Coalition