CALIFORNIA BANKERS COLLABORATIVE

LEVERAGING CALIFORNIA'S FINANCIAL INDUSTRY TO ADDRESS ISSUES OF POVERTY

Rabobank

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Testimony of Fred Mendez
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Introduction

Good morning. My name is Fred Mendez. I wear two hats today: the first as Senior Vice President of Rabobank, N.A. with responsibility for Community Reinvestment Act Compliance, Community Development Finance, and Community Affairs; the second as Chairman of the California Bankers Collaborative.

Rabobank, N.A., is a community bank offering retail and commercial banking services to local businesses, individuals, organizations, agricultural customers and communities throughout non-metropolitan California. The bank has over 90 locations extending 700 miles from the South East border with Mexico up through the Central Valley to Sacramento and throughout the Central Coast. We are part of the Rabobank Group, a century-old privately held cooperative bank with a long history of community banking and agricultural finance. The bank's international businesses are locally managed, so that customers enjoy the advantages of the Group's AAA-rated financial strength and safety, as well as the responsiveness of a local community bank. Rabobank, N.A. follows this localized strategy in California, approaching the state as several individual regions based on geography and market characteristics rather than a single homogenous market. With this regional strategy, Rabobank N.A. is able to fulfill its mission of being a true community bank in each of its different markets: highly responsive to the needs of each local community, tailored in its community outreach, and agile with regard to local business and marketing initiatives.

The California Bankers Collaborative is a joint initiative of large California banks to expand and leverage their collective resources to address issues of local and statewide poverty and development.

My comments, except when noted, represent the collective views of local CRA executives from California Bank & Trust, Citibank, Comerica Bank, Rabobank and Union Bank; therefore, these views may not represent the formal views of each institution at the highest level.

The format of my comments will roughly follow the topics and questions as published in the Federal Register on June 23, 2010 (Vol. 75, No. 120); specifically, those centering on geographic coverage, bank asset thresholds for CRA exams, assessing the activities of affiliates during CRA exams, CRA data collection, and the definition and role of Community Development in the CRA exam process.

Geographic Coverage

The same bank can differ from one area to the next. For example, it can be heavily reliant on its branch network in a major metropolitan area, and find innovative ways to make its products and services accessible to non-metropolitan areas without relying on a large branch presence. As such, a banks' market share of deposits and loans should serve as the primary determinant of its CRA obligation more than the size of its physical branch network. A bank with limited or no branches in a market where it has substantive market share[1]

[1] The regulatory agencies should define "substantive market share" and propose rules on how banks with limited or no branches are expected

should be allowed to focus on lending and investment activities to compensate for its limited capacity for community development services.

CRA Assets Thresholds

The current asset thresholds that apply to institutions and tests should at least align with how the FDIC differentiates the industry for asset concentration purposes.[2] To illustrate, as of March 2010, the 105 FDIC-insured institutions with assets over $10 billion represented an aggregate $10 trillion in assets out of total industry assets of $13 trillion. The 575 institutions that are considered large banks under the CRA regulation, not including the 105 mentioned previously, represent only $1 trillion in aggregate industry assets.[3] These two groups should not be considered equal. While all banks with assets greater than $1 billion should be examined under the Large Bank Tests, those with assets less than $10 billion should not be compared to those with more. Additionally, given the enormous capacity and scope of banks with assets over $100 billion, some Collaborative members feel strongly that those institutions should be compared to each other for CRA purposes, and not with large institutions below that threshold.

Affiliate Activities *(The following comments are those of Rabobank and not representative of the Collaborative)*

For those institutions, like Rabobank, who are committed to proving that the CRA can align with the business strategy and financial success of a bank, it is difficult to compete with institutions that have separated community development activities from banking by using foundations to underwrite their equity investments and philanthropy. As such, the regulatory standards for CRA activity through bank foundations should be different from those that come from a bank. While bank foundations have made a truly impressive impact throughout low- and moderate-income communities, it is not banking. While CRA-related activities channeled through bank foundations should continue to be considered under the CRA regulation, the agencies should separate the CRA activities of banks from those of bank foundations, and ensure that peer comparisons are conducted in a manner that takes this separation into account. The Investment Test activity of two similarly situated banks within a particular market should not be treated equally if one of the banks uses a foundation and the other does not. Additionally, a bank that does not use a foundation for its CRA activities yet comes close to, matches, or exceeds other banks in the market using a foundation, should be given additional consideration.

CRA Data Collection

In an effort to reduce regulatory reporting, the Collaborative suggests eliminating Schedule RC-C Part II and enhancing, if necessary, the CRA data collection requirements for small business and small farm lending that is considered critical to the supervisory function.

Community Development

In addition to impact, community development loans and investments should be reviewed on the basis of sustainability. While each bank has the right to underwrite community development investments and loans as they see fit, the agencies should consider whether these well-intentioned transactions may be counter to the goal of long-term economic and community development, or “damage the brand” of community development finance within the industry. Examiners should understand the business strategy behind a banks’ community development finance program, be confident that it fits within safe and sound banking practices, and recognize the difference between “CRA credit grabs” and a mutually beneficial community development finance program. One way to gather this information is to include bankers in community contacts during exams.

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to comply with the CRA.

[2] Small banks under $100 million; Intermediate small banks between $100 million and $1 billion; Intermediate large banks between $1 billion and $10 billion; and Large banks over $10 billion.

[3] FDIC Quarterly Banking Profile, Q1 2010