Alliance Bank
OF ARIZONA

August 9, 2010

Robert E Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 202429

Re: RIN # 3064-AD60

Dear Mr. Feldman:

Thank you for the opportunity to speak at the CRA Public Hearing regarding RIN #3064-AD60. I would like to comment on revising the small business lending data and the CRA Performance Evaluations.

My first recommendation is to increase the size standard for the definition of a small business from $1 million or less in annual gross revenues to $7 million or less in annual gross revenues. Finally, although I will not formally address my other comments at the Public Hearing, I have included in my written comments that the definition of "community development" should be expanded to include actions to improve financial literacy at all income levels and to help stabilize neighborhoods facing clusters of foreclosed homes.

Defining a small business as a for profit organization with gross annual revenues of $1 million or less is too restrictive and does not properly reflect the nature of small business lending that is occurring for CRA purposes. The Small Business Administration (SBA) has a broader size standard definition of a small business and should be used as a reference in determining the definition of a small business for CRA purposes.

The SBA refines the size standard of a small business every five years. The measure is defined by the employment size of the firm or the gross revenue figure. In general, the size standard can be measured by the concern's average employment for the preceding 12 months or on the basis of the annual gross receipts of the business over a period of not less than 3 years. The size standard varies from industry to industry based on the National American Industry Classification System (NAICS). For example, SBA adopted 500-employees as the standard for manufacturing industries, and $7 million in annual gross revenues for non-manufacturing industries.

In 1954, the SBA first adopted the $1 million in gross revenues size standard. The size standard of $1 million has been periodically adjusted by the SBA to account for general inflation in the economy, start-up cost, competition, entry barriers, and size distribution of firms. Currently, the anchor size standard has increased to $7 million. The $7 million anchor level is the prevailing standard for more than two-thirds (68%) of non-

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manufacturing industries that have revenue based size standards. Moreover, the $7 million continues to capture the size of businesses that typically use the SBA's financial assistance program as a source of credit. Therefore, to properly account for the majority of the SBA loans and a more current size definition of a small business, it would make sense to increase the CRA small size standard of $1 million or less to be more in line with SBA's anchor size standard of $7 million. Keeping the size standard of a small business loan to $1 million or less is too restrictive and is not indicative of the number of small businesses that banks are financing according to the Small Business Administration's definition.

The calculation for determining the SBA size standard is very complex and I would not recommend that it be adopted for CRA reporting. However, I am recommending to adopt the SBA's recommended anchor size standard for a small business to better reflect CRA small business activity. SBA's standard small business anchor size can be found on the SBA website. Additionally, the CRA size standard for small business should be reviewed every five years when CRA is revisited.

My second recommendation is to take affirmative steps to promote consistency in the Performance Evaluation. For example, each agency should either adopt the FFIEC tables as the standard form of evaluation of loan data or develop some other standardized format for the evaluation of the lending data. Different formats can lead to different conclusions. Similarly, there does not appear to be consistency in the measurement of investments or service hours between the agencies and even among the examiners within the same agency.

For years, there has not been consistency in the use of the FFIEC tables as a means of measuring the bank's loan data for mortgage loans and small business lending. Not only does there not seem to be consistency between the agencies but also between field examiners. More importantly, when I inquired as to how to conduct a performance evaluation for each agency, I was instructed to review other bank's previous evaluations to figure it out. It seems that it would be more beneficial if we took the mystery out of the evaluation process and made it more standardized throughout the agencies. It would promote consistency on the determination of the CRA rating to make it easier and more accurate to compare banks.

Likewise, it has always been ambiguous as to how we measure investments. For example, some agencies measure investments compared to total assets, whereas other agencies measure investments compared to tier one capital. This inconsistency in measurement could lead to very different conclusions.

Moreover, for years, examiners have not been able to provide a benchmark as to what is considered an adequate dollar amount of investments. It seems reasonable to take the mystery out of this calculation and have a consistent measurement and matrix that explains each rating for the investment test. The information would be very beneficial for a bank's CRA Officer in completing a self-assessment and keeping senior management informed of CRA performance. For example, if the benchmark for a satisfactory

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investment rating is at least 3% of tier one capital, then the CRA Officer now has quantitative information to give senior management to reach the bank's CRA objective. That benchmark should be uniform across all the agencies, so that a satisfactory rating for investments is consistent for each bank.

Additionally, it would be beneficial to have clearer understanding of what is satisfactory for service hours under the service test of the CRA exam. Some of the factors that go into the measurement seem to be the amount of service hours completed, who completed the service, and where the service was completed. The measurement appears to be a moving target. One examiner may not like the fact that senior management did not complete the service hours, whereas another examiner did not like that more service hours were not conducted in one region. It is very subjective and, therefore, difficult to determine the expectation of what is adequate for the service hours that are conducted. It would be beneficial to better define service hours and be consistent between the agencies.

Finally, there are many service hours that are provided by bank employees that are not included in the performance evaluation because it does not meet the "financial services" requirement. A very good example is having the employees volunteer on Saturday to help build a Habitat home. There can be more benefit from working side by side with a low-income family building their home than if we sat with them for four hours discussing budgeting. For example, Alliance Bank employees volunteer at least four times a year to build a Habitat home. The families are always very grateful for the help, but more importantly, they get to see first hand that there is more to a bank then just walls. One particular Habitat home owner indicated to me that he never imagined a bank would ever help him in his wildest dreams. He was someone that has never walked inside of a bank before in his life. The volunteer hours we provided that day opened everyone's eyes and minds.

Thank you for listening to my recommendations for increasing the size standard for a small business to $7 million of annual gross revenues and to standardize the performance evaluation between the agencies for consistency in the rating of each bank. In particular, it would be beneficial if there was standardization in using the FFIEC table for measuring loan data, promoting a benchmark for investments and better measurement of service as it pertains to service hours performed.

Included below are additional written comments that address expanding the definition of community development to include financial literacy for all income levels, and support of projects that help to stabilize neighborhoods devastated by clusters of foreclosed homes.

The economy has experienced previous downturns in the past decades, but what makes this economic downturn unique is that the average family disposable income has dropped, as well as home prices and stock values. The primary focus of CRA has always been to support low-to-moderate income families and geographic areas. However, in certain aspects of community development, the focus needs to be stretched to also include the middle income families and geographic areas.

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The success of financial literacy has been proven over and over. For example, CRA mortgage loans provided to low-to-moderate income families who have been required to go through home counseling have proven to have a lower default rate than mainstream mortgage loans. In this current downturn in the economy, financial literacy is vital to all income levels.

A recent study of a prominent middle class community located in Phoenix, Arizona indicated that the families located in that community carried one of the highest debt ratios in the nation. The study showed that the families suffer from debt, foreclosure and other problems associated with the plunge in the housing market, losses in the stock market and stagnant or loss of income. In this community, financial education was offered to 35 families over a period of three months. The total unsecured household debt between the 35 families was $1.6 million. At the end of three months, the 35 families were able to reduce their debt by $340,000. The results of these efforts show the need for supporting financial literacy programs at all income levels.

There have been many initiatives to prevent foreclosures, and to stabilize neighborhoods impacted by foreclosures. Most of the initiatives benefit low-to-moderate income areas. However, recent trends have demonstrated that foreclosures often are not randomly scattered across a metropolitan area, nor are they solely low-moderate income neighborhoods, but are occurring in clusters in both low-moderate and middle income areas. Therefore, the definition of community development should include the stabilization of any neighborhood impacted by a high rate of clustered foreclosed properties.

Historically, foreclosures resulted from an individual suffering a financial hardship. In this case, one foreclosure in a neighborhood barely went noticed. Over the past few years, foreclosures have been happening in clusters, which have destabilized neighborhoods, reduced property values of nearby homes, and lower municipal tax revenues.

Foreclosures can breed foreclosure. As home values fall and homes fall into disrepair, yesterday's foreclosures set up tomorrow's foreclosures. Families are more likely to give up the struggle to pay as the neighborhood runs down and empty homes surround them. The magnitude of the problem and the long term effects of clustered foreclosed properties at the neighborhood level could have a devastating impact on nearby neighborhoods, the metropolitan area and the entire region.

The deterioration of the property from the foreclosure process generally occurs in two stages. Stage one is when the resident does not have enough money to maintain the property. Stage two results from the absence of any occupants to take care of the property. As stage two sets in so will crime. By one study, when the foreclosure rate increases 1 percentage point, a neighborhood's violent crime rises 2.33 percent. The effects are not confined to low-income or redeveloping communities; they are seeping into middle-class neighborhoods and new developments. Therefore, a program that supports the stabilization of a neighborhood faced with a cluster of foreclosed homes could prevent the deterioration of that neighborhood and ultimately becoming an abandoned neighborhood.

The CRA was passed in 1977 as a result of pressure to address deteriorating conditions in cities caused by families fleeing to the suburbs. The current spate of foreclosures is similar, resulting in deteriorating conditions of neighborhoods. Therefore, I believe supporting programs to stabilize neighborhoods, regardless of income level, serves the purposes and spirit of CRA.

Thank you very much for the opportunity to submit my comments.

Best Regards,

Barbara Boone

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