

October 16, 2002

Mr. Greg Jones
Directory of Regulatory Relations
Netbank
11475 Great Oaks Way, Suite 100
Alpharetta, GA 30022
Email: gjones@netbank.com

Dear Mr. Jones:

I am writing from the Woodstock Institute in Chicago to comment on Netbank's second proposed CRA Strategic Plan. As the financial industry changes, we feel that it is important that the implementation of CRA reflect that changing reality. Federally-insured banks must remain responsive to low-income people and communities.

We commend Netbank for significantly expanding its CRA assessment area to include the following states in their entirety: Arizona, California, Georgia, Florida, Illinois, Massachusetts, New Jersey, New York, Pennsylvania and Texas. This is an improvement over the more limited assessment area that the Bank put forth in its last CRA Strategic Plan. Woodstock maintains that the definition of assessment area needs to reflect the changing industry in order to keep in line with the intent and indeed the language of the CRA statute. Although Netbank claims that two-thirds of its deposits and about half of its loans originate from these markets, that still leaves a significant portion of the bank's business outside of its CRA assessment area. Banks should include in their CRA assessment areas all counties or market service areas (MSAs) in which the bank holds 0.05% of the market share.

Netbank is now a sizable institution with over \$3 billion in assets and should be able to perform the necessary analysis to create a wider assessment area. However, it would be an improvement if Netbank would aggregate CRA lending goals for the rest of the country (that is outside of the assessment area). To do this, Netbank should look at a market share ratio in the portion of the national market that is outside its assessment area. Netbank should divide its aggregate market share for different types of mortgage lending for low- and moderate-income (LMI) communities/ borrowers by its market share (for the same types of products respectively) for middle- and upper-income (MUI) communities/ borrowers. The Bank should aim for a minimum market share ratio of 1.0. This would mean that the Bank is

making a roughly equal share of effort in LMI areas as it is in MUI areas. A similar market share ratio could be done for LMI account holders versus MUI account holders in aggregate outside of its assessment area.

Netbank has included goals for all three component areas of CRA exams: lending, services, and investments. This is an improvement over the last strategic plan. However, most of the goals that Netbank has set forth seem inadequate.

The Institute is concerned about the fact that Netbank continues to purchase rather than originate mortgage loans. Purchased loans are neither complex nor innovative, and there is no mention of scrutinizing the loans that Netbank purchases for possible predatory features. Woodstock has watched as predatory lending has reversed some of the successes of community development and wrecked havoc on our lower-income and minority neighborhoods. Banks should not receive CRA credit for buying predatory loans. In fact, they should be downgraded for such purchases. Netbank should outline how it will avoid buying such loans in its Strategic Plan. Moreover, Netbank's lending goals do not differentiate between purchased or originated loans.

Recently Netbank acquired two institutions that are engaged in mortgage originations: Market Street Mortgage and RBMG. The Institute looked at the HMDA data for these two firms in Illinois in 2001. We are concerned with the level of lending that Netbank is shooting for in its strategic plan. In Illinois in 2001, RBMG and Market Street Mortgage originated (Woodstock did not include purchased loans as originations in its calculations) about \$712 million worth of home purchase and refinance mortgage loans, about \$160 million of which went to LMI borrowers.

However, Netbank's goals for lending in Illinois over the period of the strategic plan include a total of \$365 million in both purchased AND originated loans in the state. The Bank even sets an "LMI maximum" lending goal of only \$58.4 million in Illinois in order to receive a satisfactory CRA rating. Woodstock has never seen such a "maximum" goal. The Bank is claiming it should receive a satisfactory CRA rating by making a minimum of \$43.8 million in loans to LMI people in Illinois—a level that is roughly a quarter of what RBMG and Market Street Mortgage are already doing. This is a very low-level goal for lending in such a large market. In order to receive an outstanding CRA rating, Netbank sets an LMI lending goal of approximately \$91 million of a total of \$456 million in loans

in Illinois. Again, this is just over half of what the Bank's mortgage arms are already doing in the Illinois market.

Further, we are very concerned about evidence that RBMG, the new subsidiary of Netbank, has made predatory loans through its lending arm called Meritage. There is absolutely no circumstance under which a bank should get CRA credit for purchasing or originating predatory loans regardless of the source of those loans. Banks should be downgraded for such activity.

Additionally, in the area of community development grants and investments, Woodstock would like to encourage Netbank to provide equity equivalent grants and to target community development financial institutions (CDFIs) in all of its CRA areas. The Institute is concerned about the lack of complexity and innovation in the bank's CRA goals. This is especially problematic in the area of investments, as the Bank has specified geographies that contain diverse opportunities for community development activities. Most of the agencies that are listed by the bank in the plan as receiving grants or investments are located in Georgia. Netbank should make quantitative services and investment goals for each of the geographies in its assessment area. Because it is a retail bank, Netbank should also have goals for the percentage of bank accounts held by low- and moderate-income people.

Woodstock Institute deems that Netbank's CRA Strategic Plan would become a useful model for Internet banks if the above changes were made. Thank you for the opportunity to comment on this Plan, and please let me know if you have any questions or require further information.

Sincerely,
Katy Jacob
Research, Communications and Development Associate

cc: Ms. Lynn Bedard, Office of Thrift Supervision.