

December 19, 2000

CRA Officer
Netbank
11475 Great Oaks Way, Suite 100
Alpharetta, GA 30022

To Whom it May Concern:

I am writing from the Woodstock Institute in Chicago to comment on Netbank's proposed CRA Strategic Plan. As the financial industry changes, we feel that it is important that the implementation of CRA reflect that changing reality. All federally-insured banks must remain responsive to low-income people and communities. We are especially concerned about this Strategic Plan as we feel that it will impact the formulation of other such plans for Internet banks.

While it is commendable that Netbank includes California and Florida in its CRA goals, we feel that all geographies for which the Bank pledges CRA goals should be reflected in the CRA assessment area as well. Internet and other new forms of banking make the interpretation of assessment areas as "areas surrounding branches" archaic. 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. Moreover, although Georgia, California and Florida are included in Netbank's CRA goals, about two-thirds of Netbank's business comes from other geographies. 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.

If an Internet bank is new or is too small to allow for this, the Bank should make aggregate CRA lending goals for the rest of the country. To do this, Netbank should look at a market share ratio. 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 across the U.S.

The above suggestion highlights something that we feel is lacking in Netbank's strategic plan. The CRA regulation mandates that such plans specify measurable goals for all three performance areas. Particularly in the area of services, the goals that Netbank outlines (which are only for the Atlanta MSA) are quite subjective. The regulation requires banks to focus on outcome rather than just on process. Because it is a retail bank, Netbank should have goals for the percentage of accounts held by low- and moderate-income people. The Bank has an affordable checking account (NetValue Checking) that it says it will market to 15 to 20 affordable housing groups in the Atlanta area. This goal reflects process rather than outcome. In addition, the Bank should make measurable CRA goals for its money market accounts.

The Institute is concerned about the fact that according to Netbank, about 95% of its mortgage lending involves purchasing rather than originating loans. Thus, the bank's lending goals are in no way complex or innovative. Moreover, 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.

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 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. In addition, Netbank states that most of its investments will be in agency-backed securities. These are routinely provided by private investors and absolutely must be screened for predatory activity. A bank should not receive CRA credit for investing in securities that could be funding the activities of predatory lenders.

Woodstock Institute feels that Netbank's CRA Strategic Plan could become a model for such plans for Internet banks if the above changes are taken into consideration. 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,
Malcolm Bush
President

cc: Mr. Art Goodhand, Assistant Director, OTS Southeast Region;

Mr. John Ryan, Regional Director, OTS, Southeast Region