

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, DC 20551

Re: Docket No. R-1386

Dear Ms. Johnson:

I am contacting you to provide several recommendations to modernize the Community Reinvestment Act (CRA). These recommendations include:

- Expand the scope of the Act to include non-depository financial institutions;
- Change the current definition of assessment areas;
- Improve the service test;
- Improve data disclosure requirements for small business lending;
- Improve the existing ratings and incentive structure.

With the passage of the Dodd-Frank Act and the creation of a Consumer Financial Protection Bureau that will monitor potentially abusive financial products and services, it is important to evaluate strategies to ensure equitable access to responsible and fairly priced products. The CRA has proven to be one of the best tools to achieve this goal, but it can continue to do so only if the following changes are made.

The CRA must be expanded to include all types of financial institutions, not just depositories—As other types of institutions take on a greater role in providing financial products to consumers, it is critical that we expand the scope of CRA to ensure that it remains effective at encouraging financial services providers to meet the needs of low-wealth people and communities.¹

- **Mortgage companies and brokers:** Mortgage lending is now much more likely to occur not through bank branches but through affiliates or mortgage brokers.² It is critical that mortgage companies and brokers that account for such a large share of the mortgage market be subject to the transparency and accountability that the CRA provides.
- **Insurance companies:** Under the Dodd-Frank Act, a new Federal Insurance Office will be established to monitor the provision of insurance and to collect and disseminate data on the insurance industry. Using these data to inform the process, insurance companies should be subject to community reinvestment obligations similar to other financial institutions.
- **Credit unions:** Research shows that credit unions serve a much lower percentage of lower-income households than they do middle and upper-income households.³ Credit union members receive significant financial benefits directly subsidized by federal and state tax exemptions; as such, credit unions should have community reinvestment obligations under the CRA.
- **Securities companies:** According to the 2007 Survey of Consumer Finances, white families are more than twice as likely to hold stocks as are families of color. With nearly 50 percent of workers lacking any retirement savings through their employers, securities companies, which derive substantial profits from managing retirement savings in stocks and mutual funds, should

¹ Avery, Robert, Marsha Courchane, and Peter Zorn. "The CRA within a Changing Financial Landscape." 8 Apr 2009. Web. 30 Jul 2010.

² Ibid.

³ Jacob, Katy, Malcolm Bush, and Daniel Immergluck. *Rhetoric and Reality: Many Mainstream Credit Unions Do Not Serve Lower Income People*. Chicago, IL: Woodstock Institute, 2002. Web. 22 Jul 2010.

have a community reinvestment obligation to address this persistent gap in access and opportunity.

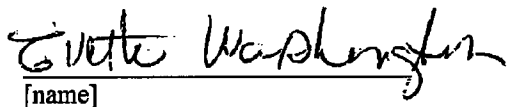
Assessment areas—Currently, the CRA only requires banks to serve the financial needs of the communities where they have bank branch locations. However, new types of financial institutions have emerged that are less reliant on branches to provide services. Research has also found that CRA-regulated institutions lending outside of their CRA assessment areas had a much higher percentage of higher-cost loans than they did when lending within their assessment areas.⁴ To address these issues, assessment areas should be defined as any state, metropolitan area or rural county where a CRA-covered institution maintains retail offices or is represented by an agent or has at least a 0.5 percent market share in housing-related loans, securities, insurance, or any other financial instrument designated as CRA-eligible for the purposes of establishing an assessment area.

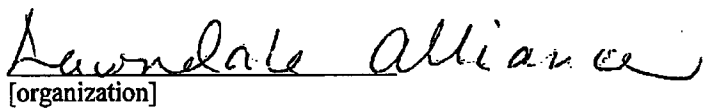
The existing framework of the Services Test is inadequate. Banks should disclose, and regulators should consider, demographic information on account holders, accounts, and transactions including such critical variables as census tract location, account holder, number of new accounts opened, age of account, and percent of bank income generated by fees.

We recommend creating several new compliance incentives for the CRA.

- A publicly available community reinvestment plan would ensure that an institution's reinvestment goals are both transparent and allow the public and regulators to determine if the financial institution was able to achieve those goals leading up to a regulatory performance evaluation.
- When a financial institution fails to live up to its reinvestment goals, it should be required prepare and submit a public improvement plan. If the institution does not improve, it should face meaningful corrective actions such as prohibition from selling mortgages to the GSEs, ineligibility to contract with federal agencies, and/or a requirement to pay fines to a national reinvestment fund.
- Regulators should provide favorable consideration for financial institutions that provide support for national investment funds, work with local groups to develop local/ regional CRA commitments, offer affordable small dollar loan products, or provide increased equity investments in CDFIs.
- In the event of an emergency acquisition, we request that the regulator hold public hearings in at least one of the financial institution's assessment areas and require that the acquiring institution develop a CRA plan to effectively invest in the acquired institution's assessment areas.

Sincerely,

 August 16, 2010
[name]


[organization]

⁴ *Paying More for the American Dream III: Promoting Responsible Lending to Lower-Income Communities and Communities of Color.* Woodstock Institute et al, 2010. Web. 23 Jul 2010.