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[THE VOICE OF MICROENTERPRISE]
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August 28, 2010

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Via E-mail: regs.comments@federalreserve.gov

Re: Docket No. R-1386, Community Reinvestment Act Request for Public Comments

Pursuant to the request for public comments made by the Federal Reserve Board ("the Board") and published in the Federal Register on June 23, 2010, the Association for Enterprise Opportunity (AEO) submits the following comments.

AEO is a national membership organization and the voice of microenterprise development in the United States. For nearly two decades, AEO and its nearly 400 member organizations have helped more than two million entrepreneurs support themselves and their families and contribute to their communities through business ownership. The CRA is a critical conduit of capital, investments, and other resources for many AEO members and their clients.

AEO is grateful for the opportunity to submit public comments on the Community Reinvestment Act (CRA), and we are encouraged by the actions of the executive and legislative branches towards further strengthening CRA and making it more applicable to today's economic realities.

Our comments touch on several areas of the Community Reinvestment Act. We look forward to working in partnership with the Board and other regulatory agencies to continue our support of this incredibly important economic development program.

Modernizing the CRA
Research by the Federal Reserve Bank of San Francisco shows that home loans made by banks are half as likely to end up in foreclosure than loans issued by non-CRA covered mortgage companies. In addition, CRA small business and community development lending has totaled more than $1 trillion since 1996. However, if CRA had been more expansive-- requiring compliance from non-depository affiliates of banks, insurance companies, investment banks and independent mortgage firms-- we believe that much of the foreclosure crisis could have been averted.

Expansion of Assessment Areas
Further research by the Federal Reserve has shown that bank loans outside of their CRA assessment areas are more likely to be high-cost than those made within assessment areas and scrutinized by CRA exams. As a result, bank lending within CRA assessment areas has dropped to about 25%. CRA is only as effective as its reach—federal agencies must strengthen CRA by structuring regulations to capture a much greater percentage of bank activity.

Expansion of Institutional CRA Applicability
Currently, banks have the option of including their non-depository affiliates on CRA exams. It is common sense that banks will opt against inclusion if the affiliates engage in risky or discriminatory lending. In order to ensure a more comprehensive picture of bank activity, we believe that this option should be eliminated. We also believe that insurance companies, investment banks and independent mortgage firms should be brought under the CRA umbrella.

Greater Accountability for Lending and Services to Minority Populations
Research by the National Community Reinvestment Coalition concluded that minorities received more high-cost and risky lending products than was justified based on their creditworthiness. For this reason, we believe it is critical that CRA be changed to consider lending and services to minorities. This is not unprecedented; prior to 1995, CRA exams considered lending to minorities in their assessments. It is our belief that greater transparency in lending would open the door to fewer racial disparities.

CRA Exam Ratings & Weights
CRA exams must have more and greater variation in their ratings in order to provide meaningful distinctions in performance. Over the last several years, 99 percent of banks have passed their CRA exams, even as research has shown lower levels of lending in assessment areas.

In addition to the four existing ratings (Substantial Noncompliance, Needs to Improve, Satisfactory, and Outstanding), we believe "High Satisfactory" and "Low Satisfactory" should be included. We would also like to see better weighting systems implemented to ensure a more adequate distribution of points. For example, routine investments like purchasing loans on the secondary market should not receive as much weight as more difficult investments such as equity investments in small businesses.

Modernizing CRA Enforcement
Mergers and acquisitions are the primary enforcement mechanisms for CRA, and they have declined significantly during the economic downturn. Additional enforcement mechanisms are necessary to ensure that banks continue to reinvest in our communities. Recommendations for additional enforcement mechanisms include requiring banks to submit public improvement plans (subject to public comment) when they receive a low rating overall or in any of their assessment areas. Also, fair lending reviews on CRA exams should be more detailed and should include reviews of safety and soundness of loans.

AEO is strongly opposed to providing exemptions from merger review or less frequent CRA exams for banks with "Outstanding" ratings, as we believe that less scrutiny will lead to a decline in CRA performance.

Enhanced Data Collection
The availability of data has increased responsible lending by holding banks publicly accountable for their lending and investment decisions. In order to bolster affordable bank lending and basic services, we support enhancements to small business data to include the race, gender, and amount of credit requested for small business borrowers (where not already applicable under the 2010 Dodd-Frank Regulatory Reform Act), census tract data on community development lending and investing, and bank deposit and consumer lending on a census tract level.

We are supportive of favorable CRA consideration for investments in multi-regional funds for Low Income Housing Tax Credits and other CRA-related investments. However, we also believe that banks must first demonstrate that they are adequately serving their assessment areas (must have "Outstanding" on their investment test) before being allowed to venture outside of their assessment areas for favorable CRA consideration.

Conclusion
CRA is an incredibly powerful tool to ensure that banking institutions meet the credit needs of the low- and moderate-income neighborhoods where they do business. However, it is only as effective as the various tools and enforcement mechanisms at its disposal. Markets necessarily fluctuate; even still, the amount and level of change that our economy has experienced in the past several years is unprecedented. We strongly believe that it is the responsibility of policymakers such as the Board to account for these changes, and to modernize the enforcement tools that ensure the flow of investment into communities that are traditionally underserved or otherwise experience undue discrimination.

Thank you again for the opportunity to submit comments. If we can be of further assistance, please do not hesitate to contact me.

Sincerely,
Connie E. Evans
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President & CEO