FIRST COMMUNITY LAND TRUST OF CHICAGO

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August 24, 2010

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Re: Docket No. R-1386

Dear Ms. Johnson:

On behalf of the First Community Land Trust of Chicago, I am contacting you to provide recommendations to modernize the Community Reinvestment Act (CRA). Included in our recommendations are the following:

- Encourage the provision of land trust mortgages to low-income households;
- 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;
- Keep existing community investment commitments in the event of bank mergers and related.

Recent sub-prime lending practices demand the expanded provision of secure, long-term/fixed-rate mortgages to credit-qualified, low-income home buyers. Additionally, passage of the Dodd-Frank Act and the creation of a Consumer Financial Protection Bureau that monitors abusive financial practices make it important to evaluate strategies that ensure equitable access to responsible and fairly priced products. The CRA has proven to be one of the best tools to achieve these goals, but it can continue to do so only if the following changes are made.

Given their mission to facilitate home ownership among low-income households, it is in the interest of land trusts to promote positive CRA reform. And, it is in the interest of financial institutions to expand loans and other services to communities where land trusts are active.

The rate of bank foreclosures on land trust homes is significantly smaller than foreclosures on conventional mortgages. Low-income home buyers participating in land trust programs receive ongoing credit counseling and related support from land trusts located around the country. CRA incentives that support this trend need to be included in a revision of the regulations.

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 customers, 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.

- **Mortgage companies and brokers:** Mortgage lending is now much more likely to occur not through bank branches but through affiliates or mortgage brokers. 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. 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 have a community reinvestment obligation to address this persistent gap in access and opportunity.

Assessment areas – Currently, the CRA requires banks to serve the financial needs of communities only where they have branches or headquarters. 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. 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.

Keep Community Commitments in the Event of Mergers/Acquisitions - When Financial Institutions become part of an acquisition or expansion, the surving entity should remain liable for all previously-arranged community investment commitments. Community Development Corporations, Individual Development Account programs, land trusts, and related 501 c3s have been the beneficiaries of financial institution investments that promote low-income and local economic development. Such important programs have been halted– or at best curtailed – when the enabling financial institution has been absorbed, or otherwise changed, as a result of a merger or expansion. CRA credit should not be extended to the new entity in such circumstances.

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 to 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 government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac, ineligibility to contract with federal agencies, and/or a requirement to pay fines to a national reinvestment fund.

- Regulators should provide favorable consideration to financial institutions that provide land trust mortgages to low-income populations, that support national investment funds, that work with local groups to develop local/regional CRA commitments, offer affordable small dollar loan products, or that provide increased equity investments in Community Development Financial Institutions (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,

William D. Howard

William D. Howard
President
First Community Land Trust of Chicago