Worcester Common Ground

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

Re: Docket No. R-1386

August 31, 2010

Dear Ms. Johnson:

Thank you for the opportunity to comment on potential changes to the Community Reinvestment Act. I am writing you today on behalf of Worcester Common Ground, Inc and as a member of the Northwest Community Land Trust Coalition. Worcester Common Ground, Inc. serves the neighborhoods of inner city Worcester with quality, affordable housing, we own and manage over 130 apartments and have provided the opportunity to home ownership to 25 families, additionally we work to address the needs of our neighbors b advocating on their behalf and by providing community gardens and playground. We recommend changes to the CRA that would expand services to low-income homebuyers.

Our homebuyers continue to struggle to find quality mortgage financing even though the CLT foreclosure rate is 1/8th the national average (see National CLT Network 2009 study – www.cltnetwork.org/resources/foreclosure). The changes outlined below would help to expand services to low income communities by broadening the pool of lender that have to comply with CRA, broaden the communities included in CRA analysis, and providing greater incentives for lenders to meet CRA requirements. These recommended changes would not only increase lending in low-income communities, but also strengthen communities by encouraging a broader participation and deeper engagement in these communities.

Our specific recommendations to modernize the Community Reinvestment Act (CRA) 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.

• ***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.

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 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 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 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.

Worcester Common Ground, Inc is a community-based, nonprofit, membership organization that offers sustainable and unique homeownership opportunities as a way for low- and moderate-income families to build equity and participate in the cultural and civic enrichment of their communities.

Worcester Common Ground, Inc offers eligible homebuyers an affordable initial purchase price by bringing public and private capital to bear as a purchase subsidy. The on-going affordability of the home over subsequent sales is guaranteed through a ground lease re-sale formula included in the legal agreement between the CLT and the homeowner. This formula balances a fair equity return to the homeowner with the community's need to keep the home affordable for all subsequent families.

Banks and other financial institutions are an essential part of our partner homeowners' success. We're eager to see the CRA strengthened to encourage financial institutions participation in low-income communities.

Thank you for considering our recommendations.

Sincerely,

Stephen T. Patton
Executive Director

The Community Development Corporation of Piedmont