Community Reinvestment Act Joint Public Hearing, August 12, 2010
Chicago, Illinois

Alicia Williams:
Good morning.

Voices:
Morning.

Alicia Williams:
I know the room seems a little thin right now but I'm sure that's going to change, so you know the early bird gets the worm, as they say.

Um, my name is Alicia Williams. I'm vice President over Consumer and Community Affairs here at the Federal Reserve Bank of Chicago and I'd like to welcome you to this interagency public hearing on the Community Reinvestment Act, CRA.

Before I turn the podium over to Governor Elizabeth Duke from the Federal Reserve Board I want to cover a few logistical and housekeeping items. Now if you didn't pick up an agenda or the hearing procedures before you came into the room, we do have some out there on the table just outside of the door here. Also, if you have cell phones, if you could either turn them off or put them on mute and if you're sitting up here or sitting at a table that has a microphone, if you could put your cell phones underneath the table because you know we don't want to have them interfering with the system, so if you could do that, that would be great.

Also I want to let you know that the meeting is being recorded and is scheduled to run from nine to four-thirty p.m. so we're going to definitely try to keep it on schedule. And then today we will have three panels and then we will have individual presentations that will be given at 3 p.m. We will have two scheduled breaks and then we will have a boxed lunch for you at 12:15. And see they said there was no free lunch, well there is. Okay and then the other thing we'll do five minutes before we begin each section we'll ring the chimes so if you hear those chimes going on that means you've got about five minutes to come back into the room and then we're going to start promptly.

Also since we have a full agenda I want to ask each panelist...panelists, hello...okay that you stick to your allotted time so that others will have opportunity to speak. Please speak directly into the microphone so you can be heard. We have a time keeper up front and that's Jennifer, so keep your eye on her, and we also have a timing device, the little device there with the lights. Now when you start it will be green, when you got two minutes left it turns yellow and then Jennifer who's going to be like our Vanna, she's going to give you a one minute sign and no, you can't ask for additional time for $200.

[Laughter.]

Alicia Williams:

So when the light turns red your time is up. Then after the presentations are completed, each agency principal will have five minutes to ask questions of you and they're going to direct the questions to a specific person, so please try to be as succinct in your response as you can. And if time permits, we'll have a second round of questions for five minutes and if we have time after that then you'll be given a moment to do like a brief wrap up and summary, and that would be prior to the conclusion of the panel. So I know there's some individual presenters in the room, you'll begin speaking at 3 p.m. so we would like you to assemble in front of the Wisconsin room just over to the right and then we're going to bring you in when your time is ready to start so please assemble by 2:50, we will begin at 3 when the break is over. You'll be given three minutes to speak and then Jennifer will give you a sign when you have one minute and then you'll get another sign when you have 30 seconds and then when your time is up, then if you will step away and then the next person can come up and speak. So we're going to moving through that process pretty quickly so we can accommodate as many people as we can. Now in regards to where the restrooms are, I didn't think I would tell you, but I think it will, so you're going to go through out the door, if you go over the bridge you're going to make a left, if you go out just up around the hallway you're going to go and make a right, so it's near the bank of elevators, so that's where those are. So now I'm going to turn the program over to Governor Duke, thank you.

Elizabeth Duke:
I will be joined today by Martin Gruenberg but you may notice this is not Martin Gruenberg –

[Laughs]

-- Ellen Lizar, who is senior advisor to the chairman for consumer policy at the FDIC and we understand that Marty is in a vehicle on his way here, and so whenever he gets here he will take his place. Barry Wides [phonetic], who is Deputy Controller for Community Affairs at the ICC and Thomas Barnes, Deputy Director Examination, Supervision and Consumer Protection of the OTS.

Before we begin I'd like to express my appreciation to President Evans and our colleagues here at the Federal Reserve Bank of Chicago for hosting us today. Charlie you want to stand up just so they can see. This is President Evans, this is...we're in his house. Alicia Williams, the Vice President of Consumer and Community Affairs Division at the Chicago Reserve Bank and the staff here have worked to ensure that this hearing goes smoothly and that we're all well taken care of. Thank you Alicia, Maryjo Conestra, Maryjo Huck, Laura LeBarbra, Donna Mortensen, Elizabeth Taylor, Ron Glasic, and Damon Warfield, for all of you for your work.

I'd also like to thank the witnesses here today both on the panels and individually for the input that's so important to our work. I would encourage each of you as well as anyone here who will not be testifying to also provide us with written comments. And finally let me apologize to anyone whose comments we need to cut off and to those of you that we couldn't accommodate the speaking part. Please report that interest in this topic has been tremendous and we have filled every available speaking slot and many of the seats in the room so I'll be asking for everyone's assistance to observe time limits and stay on schedule. I'm going to begin with a few opening comments and then give my fellow regulators a chance to make some remarks and then we'll begin with the first panel.

As we know the structure of the financial services industry, the financial products that banking services offered and the methods used to deliver those products and services have changed dramatically in the 33 years since CRA was enacted. The needs of communities have also changed. These hearings are designed to help us gather input on whether and how we should update our CRA regulations. Our over arching goal is to ensure that the regulations remain relevant and effectively encourage financial institutions to help meet the credit needs of their communities including low and moderate income neighborhoods consistent with safe and sound operations. We're fortunate to have a plethora of witnesses here today, all of them are highly knowledgeable about the CRA, and although they play different roles and have different perspectives I think it's safe for me to say that all of them share the common goal of working to ensure that financial services are readily available in their communities.

Having worked with CRA as a community banker I've witnessed its benefits first hand. CRA is not only about mortgage lending to low and moderate income borrowers in lower income neighborhoods. It's also about meeting the needs of small farms and businesses and as such it serves as a valuable catalyst for job creation in both urban and rural areas across the country. The formation and growth of small businesses and the health of neighborhoods depend critically on access to credit and other financial services. So I'd like to offer a few principles to guide our thinking as we consider changes to the CRA regulations.

First any regulatory initiative should be transparent and have clearly stated goals. Much of the motivation for the CRA regulatory amendments in 1995 stem from the vagueness of the original approach. The revisions to the regulations were designed to improve clarity and thereby promote increased lending and investment activity.

Second, regulations should achieve their stated goals as effectively and efficiently as possible. We should focus more on impact than on process. Documentation requirements should take into account the size and resources of the institution and performance measurements must balance quantitative measurements of performance with consideration of the quality of the credit investment and services extended.

Third, any changes we make to the regulation should retain the flexibility that has been interval to CRA success. Our efforts to redesign the CRA rules over the years have kept them relevant amid changes in financial markets and community needs. In June of this year, this flexibility enabled us to issue a proposal for comment designed to respond to a pressing need to provide housing related assistance to stabilize communities affected of high levels of foreclosures. The agencies are currently reviewing comments received on this proposal with the goal of issuing a final rule as soon as possible. Today's hearing will focus on several aspects of CRA regulations including the geographic scope of depository institution lending, investment or deposit-taking activities under CRA, the performance test used in the CRA regulations, affiliate activities and regional and emerging issues. Your participation here today is very much appreciated and now I would like to invite my fellow regulators to make some introductory remarks. And since Marty is not here shall we start…

Thomas Barnes:
Thank you, Governor Duke. Good morning my name is Tom Barnes; I'm the Deputy Director for Examination, Supervision and Consumer Protection at the Office of Thrift Supervision.

Welcome to the third of four public hearings sponsored by the four Federal Financial Regulatory Agencies that evaluation the Community Reinvestment Act performance. I was fortunate to have been the Director of the OTS Central Region here in Chicago before taking my current position last year in Washington. That makes it a special pleasure for me to represent OTS today. Chicago is a great and vibrant city; I'm delighted to see this enthusiastic turn out, thank you for participating.

These public hearings provide us an opportunity to evaluate the current CRA regulations and explore possible options for improving them. Updates may be necessary to make the regulations consistent with the business and market realities of the financial services industry in the 21st century. Through this process, we affirm our commitment to make the CRA rules as effective and meaningful as possible for the financial institutions they cover and the communities and consumers they benefit. The CRA plays a pivotal role in encouraging banks and thrifts to meet the credit needs of all segments of their communities, including low and moderate income areas.

The CRA statute in implementing regulations encourage the expansion of branches in low and moderate income neighborhoods as well as the development of innovative and responsive retail products and services for lower income households and families.

The CRA also encourages depository institutions and community-based organizations to work collaboratively to promote the access of credit and other banking services to underserved communities. One of the issues for discussion today is how to define the geographic scope of a depository institution’s activities. The agencies established the assessment area as the basic building block of performance evaluations when we last made comprehensive revisions to the rules in 1995. Under the rules an institutions assessment area generally includes the geographies in which it has its main office, its branches, its deposit-taking ATMs as well as the surrounding geography where it originated or purchased a substantial portion of its loans.

The underlying assumption is that the physical locations where the deposits are taken define an institutions community or assessment area for CRA evaluation purposes. As the financial services industry continues to evolve and new technologies to serve customers, is the current definition of assessment area the best way to delineate an institution's community? I'm interested in your thoughts and how we can stay true to the CRA goal of meeting community credit needs while accommodating today's business models and risk profiles. This hearing also focuses on the effectiveness of current CRA evaluation methods. Would it be beneficial to revamp the ways we evaluate the delivery systems and distribution mechanisms of different CRA covered institutions to more fully recognize their markets, products offerings and business strategies? I'm very interested in hearing your views on these important issues. Some ideas for CRA reform would necessitate congressional action, however we ask participants at this hearing to focus on ways the agencies can work within their preview to make the current revisions of the current rules. We are committed to working with all stake holders to ensure that the mission of CRA is fulfilled and organization efforts encompass all the providers, products and services necessary to meet the credit needs as fully and effective as possible. Thank you again for your participation I look forward to your insightful comments and recommendations.

Barry Wides:
Well, good morning I'm Barry Wides. I'm Deputy Controller for Community Affairs at the OCC, and I'd also like to welcome everyone to today's hearing. In light of the enormous changes in the banking industry the two issues that we'll discuss today, geographic considerations and affiliate activities, are critical to our reevaluation of CRA.

In recent years banks have dramatically increased the geographic reach, sometimes operating from a headquarters in a single location but with substantial financial service activities offered online or through other nontraditional means. In some instances this evolution of where and how banks do business has made the issue of branching and the provision of local services more complicated. These changes bring into question the traditional notion that a community is where a bank has branches for the purposes of establishing assessment areas.

This hearing will explore the need to reevaluate that approach which is currently embedded in the CRA regulations. Another major industry change is that activities traditionally conducted within the bank are now being performed through affiliated companies of the bank with mortgages and credit cards being the most typical example. Although some banks elect to include those activities in their CRA evaluations, we're seeking your input on whether the inclusion of affiliate activities should be required to be included in the CRA exam in order to provide a more accurate picture of the bank's overall activities. I also look forward to your input regarding possible revisions to the CRA performance test as well as your thoughts on how well CRA evaluates the adequacy of bank performance in addressing specific financial services needs here in the Midwest.

The last time the agency substantially revised the CRA regulations was in 1995. While the industry is much change in the more than 30 years since CRA was enacted, the transformation even in just the last decade has been astounding. At its core, CRA was enacted to expand access to sustainable credit and banking services to individuals and small businesses in underserved communities. Although much has changed since CRA was enacted this essential purpose remains unchanged, particularly in the challenging economic environment in which we find ourselves today. This hearing gives us the opportunity to discuss how CRA can most effectively help address financial services challenges resulting from the current economic downturn as well as spur revitalization communities here in the Midwest as well as throughout the rest of the country.

The first two hearings that the agencies have held have been very instructive, and I look forward to hearing your views on how we can update the CRA regulations consistent with safe and sound banking practices to adapt to the vast changes that have taken place in the financial services industry in recent years.

Ellen Lizar:
Hello, I'm Ellen Lizar. I'm a Senior Advisor to the Chairman at the FDIC, and Vice Chairman Gruenberg will be here in a few minutes, but I'll take part by giving his opening address.

We're very pleased to be at this third joint agency CRA public hearing here in Chicago and look forward to listening to all of the distinguished and diverse presenters who are scheduled to testify. The purpose of this hearing, these hearings, as stated in the federal register notice announcing them, is to receive public comments on the Community Reinvestment Act regulations and to solicit views on whether and how the agency should revise the regulations to better serve the goals of the CRA. We appreciate the time that the panelists are taking to give us their detailed perspectives on opportunities for improving these important regulations.

CRA was enacted in 1977; its purpose is to encourage insured depository institutions to help meet the credit needs of their communities, including low and moderate income neighborhoods consistent with the safe and sound operation of the institutions. The four federal regulatory agencies holding these hearing share responsibility for developing regulations, for conducting examinations and for developing public performance evaluations to carryout CRA. There has not been a comprehensive review of the regulation implementing CRA since 1995, as has already been noted. During the past 15 years as is well understood there have been dramatic changes in the financial services industry. We have moved from an industry in which most banks have branches in one state to an industry in which many institutions have branches in multiple states and a number have deposit facilities nationwide.

Some institutions now conduct the majority of their deposit and lending activities using alternative delivery systems such as the internet, and we note that some of these types of institutions are represented here today. The basic purpose of CRA, to expand access to credit and basic banking services on a sustainable basis to home owners, small businesses and consumers in underserved communities, has never been more relevant particularly given the current challenging credit market environment. In light of that as well as the dramatic changes in banking over the past 15 years, it makes sense to consider whether and how CRA could be made more effective.

These hearings are designed to solicit a diverse range of views on the Community Reinvestment Act. Although they are not limited to particular topics the agencies outlined in the Federal Register Notice a broad set of issues on which we are seeking public comment. These include geographic coverage, CRA performance tests and asset thresholds and affiliate activities, which are particularly being addressed today from a very wide range of perspectives. In addition, we have sought small business and consumer lending evaluations and data, access to banking services, community development ratings and incentives and the effective evidence on discriminatory or other illegal credit practices on CRA evaluations. Moreover we have asked people to bring to our attention to particular issues that are most affecting their community's credit needs, stabilization and development. This will help us focus our attention on priorities for reform.

I also want to emphasize that we're encouraging and fully considering written comments which can be more detailed than what we can reasonably discuss at hearings. The comment period for this effort extends to August 31, and we encourage you to send in comments. Thank you.

Elizabeth Duke:
Thank you, and I will note that we're starting with our first panel ten minutes early. Let's start, we have Ellen Seidman, who is former Director of the Office of Thrift Supervision, Mark Pinsky, President and Chief Executive Officer of Opportunity Finance Network, Lela Wingard-Hughes, Senior Vice President Community Development and CRA Management at J.P. Morgan Chase, Dory Rand, President of Woodstock Institute, and Thomas FitzGibbon, Jr., Managing Director First Michigan Bank. And we'll start with Ms. Sideman, thank you all for being here.

Ellen Seidman:
Thank you very much. Members of the panel thank you very much for holding these hearings and for inviting me to participate in them.

I'm testifying today in my capacity as former Director of the Office of Thrift Supervision and as many of you know, I was a strong supporter of CRA during my tenure. My remarks focus on community development which has been a consistently successful element of CRA. Conversely in my opinion, CRA is a necessary although not sufficient condition for meaningful community development.

Notwithstanding the success, CRA could be more effective; for example, the fragmentation of community development among the three large banks, CRA tests frustrates efforts to address needs in a comprehensive and integrated way and elevates form over substance. An equally fundamental problem is community development activities are often looked at only quantitatively. In particular in a limited scope exam which is what happens in many assessment areas outside of those in which banks have a significant portion of the deposits, only quantitative efforts are considered.

An uncertainty permeates the system. How can regulators make CRA more effective in promoting community development? By focusing on community needs, providing a greater degree of certainty and incenting institutions to go beyond the simple and easy. It's also time to better recognize different roles for different types of things.

The strategy as the statute starts with community needs. I suggest the agencies create the concept of a community needs and capacity analysis. The bank's community development activities would be evaluated against. The needs analysis would start with community development needs but could include other types of needs. The concept of capacity would put greater focus on identifying and if needed enhancing or creating local institutional capacity for community development.

On an interagency enrolling periodic basis, the agencies would either undertake themselves or commission from a respected third party. Such an analysis for the 50 to 100 largest metro areas and for the remaining portion of each of the 50 states, all parts of the country including rural areas and smaller cities, where large institutions are rarely subject to a full scope exam, would have their needs and capacities assessed enabling a qualitative assessment of activities in these areas. Because the analysis would be done on an interagency basis, interagency discrepancies as to what counts should be diminished.

Effectively responding to community development needs requires focus and integrated action. By giving virtually no credit for community development loans, a good deal of credit for investments, and very limited credit for community development services, the current system encourages unproductive structuring and discourages integrated response. The intermediate small bank unified community development test appears to avoid this problem, although there is some concern that if a test were made applicable to larger institutions, the most valuable type of support for intermediaries, namely, equity support would dry up. An evaluation of the ISB test would be a good first step to resolving this issue.

The most traditional way of reducing uncertainty would be a private letter rolling system like the agencies had in place before about 1998; and the agencies should reconsider the decision to do away with it. An alternative would be to reinvigorate the strategic plan concept, but focus primarily on community development. A strategic plan would enable institutions to publically plan and announce their intentions to undertake activities with a certainty of receiving a specific degree of credit for success.

A third alternative would build on the community needs and capacity analysis. Institutions that engage in activities that are specifically identified in the analysis would be guaranteed credit for those activities, subject to any geographic requirements. Banks also need to be insured of credit when they engage in partnership building. CDFIs, CDCs and other similar entities need equity capital, loan capital and the expertise and experience banks can provide. In return, the intermediaries are good conduits for banks that may not want or be able to provide financing directly. They offer scale efficiencies, risk diversification, expertise and tailored systems and enable banks to have significant impact well beyond their own capacity. By making CRA credit certain for loans and investments including equity investments in and providing expertise to these organizations, no matter where they are located, the agencies could have an enormous positive impact on the ability of banks to participate in meeting the most challenging community needs.

The size variations among banks are now so large that they are qualitative as well as quantitative. True community banks should be expected to meet the needs of places where they operate, as should regional institutions with branches. However, many larger institutions have the financial and technical capacity to be helpful outside of their assessment areas in places where community needs often exceed the capacity of local institutions. If these institutions have earned satisfactory ratings in their own assessment areas, they should be provided the assessment of achieving an outstanding rating by serving the community development needs including partnership building needs elsewhere. The largest of the brick and mortar institutions for example those with more than $100 billion dollars in assets, should in addition to assessment area evaluations be subject to institutional community development evaluations that would consider how well the institution meets special community development needs. These would be regulated to find needs beyond the capacity of local institutions. Similarly large non-brick and mortar institutions should not have any local assessment area, but should be expected to meet these community development needs.

While these suggestions can ultimately bring both efficiency and certainty of the community development aspect of CRA, doing them well requires examiners who are both allowed and encouraged to exercise judgment, who have training and proper supervision to make sure that they are understanding the needs, understanding the possibilities and are consistent. Thank you very much and I look forward to our discussion. Thank you.

Elizabeth Duke:
Thank you. Mr. Pinsky?

Mark Pinsky:
Thank you, good morning. My name is Mark Pinsky. I am President and CEO of Opportunity Finance Network, a national network of community development financial institutions. Very briefly, the CDFI industry today is about $30 billion dollars and assets, and has done a little more than $30 billion dollars in lending and investing in under shared markets around the country in urban, rural and native communities. And I speak from the perspective of OFN and from what I hope is the CDFI perspective.

I think the panel did a great job this morning of emphasizing the changes and the shifts that have happened that are sort of a precursor to this conversation, and I'm grateful to the agencies for undertaking this consideration of CRA and what it might do to continue to be an effective and perhaps more effective tool in creating collaboration in the markets where we work. I want to talk today very briefly if I can on, we'll sort of make three broad recommendations which we might get into more in questions if that's appropriate and offer a couple of perspectives in conclusion. The first is that I think that as the panel raised and several of you raised in your opening comments, I think that the notion of what of an assessment area needs to change. I think it's very clear that the underlying concept of deposit-taking as the sort of determining factor in what the business of a bank is, is no longer the sole appropriate, maybe appropriate in some cases, but the sole appropriate way of thinking about that; and that I think we need to develop a way to trust, to allow--banks are doing a very good job and are very creative about thinking about where market opportunities are, a whole range of issues that are beyond the scope of this conversation; but we ought to look at that and recognize that. We ought to look at where the drivers of those businesses are and be able to determine assessment areas based on their business strategies, and allow them some discretion in determining where they think that those areas are through the form of whether it's a strategic plan or business plan model that the banks may develop.

At that point you have the ability to get community input into that plan and it allows for a more collaborative approach to what's going on rather than a sort of a cookie cutter approach to what has to happen. I think within the realm of the tests that exist with a couple of changes I'll talk about, I think that that model might allow for a more proactive and more dynamic and perhaps agile way of thinking about what an assessment area is--as banks change, as markets change and they do change quickly; and they change more quickly than government or regulation has the ability to change.

I think that may allow for a kind of flexibility, and it also involves clearly a kind of risk in not being able to determine exactly what's going to get rewarded and what's not going to get rewarded. And so I think that we need to advance the notion of an assessment area to reflect business strategy, to reflect real market conditions, and move away from the deposit-taking as the sole metric or the primary metric of what we do.

Second, to pick up a little bit on what Ellen talked about and I felt very eloquently, I think the notion of some sort of a community development test, some notion, some recognition that there's a lot that slips through the cracks that we need to sort of be able to capture; and I think it does as several of you noted in your opening comments, I think it needs to be both qualitative and quantitative. We need to look at what the impact of that lending and investing is, and again I think that can flow out of a bank strategy with input from community that may be captured in a business plan or something like that. I think that at some point and I'm not sure it happens right away because it needs to get tested out, I think that I'd like to see some sort of a public scoring or public rating system on the community development test that allows us to look at that in addition to the other things that are being scored; so that there is a joint accountability and that the extent that a bank that's demonstrated is meeting what it said that it was going to do. They ought to get credit for that to the extent that it's not a community, ought to sort of be able to see that wherever those communities are. Those notions of communities as we've said may be very different.

I would just suggest that one way of looking at that that I would offer up is OFN operates the CARS rating system where we have a way of looking at impact that might be useful.

Third I think that support for CDFI is a critical part of this. CDFIs have become in the last 10 years but certainly in the last year, have become a more important partner to banks in the way they deliver capital and deliver credit and deliver services. So I'd like to see that; just one suggestion on that which is that we may--I'd like to suggest that the agencies look at the notion that they use for women and minority depository institutions and apply that to CDFIs, at least to certified CDFIs. It's a way of allowing banks to get consideration for their activities when it's outside of their established assessment area; because markets change, CDFIs tend to be in line with markets.

Really quickly I think to--just close up, I think that the notion of CRA needs to move to become a better tool for collaboration among banks and among the government regulatory agencies, among CDFIs and CDCs in communities, and so that we move away from a confrontational model to a model that really can better serve changing needs of the communities in dynamic times. Thank you.

Elizabeth Duke:
Thank you.

Lela Wingard-Hughes:
Good morning and thank you for inviting me here today to participate in this conversation as well. J.P. Morgan Chase has a strong commitment to the communities that it serves as reflected in the outstanding range of its two subsidiary banks. Chase believes that this CRA has worked

well overall, but that opportunities do exist to make some changes to the Regs and to the examination process to insure that the spirit and intent of the statute continues to be met in an environment which as has been noted, has greatly changed over the years.

Chase suggests that there are some considerations which should be taken into account in an effort to make the Regs more effective, including changes which would give greater CRA credit to community development lending, the evaluation of all CD activities of both lending and investing and services in tandem as a part of a new community development test within CRA Regs or within the exams; expanding the definition of community development to include activities that provide relief to geographies and business or individuals in response to widely recognized issues that are negatively impacting communities and that are needed to revitalize and stabilize those communities regardless of the income of those communities; modifying the approach for awarding CRA credit for multi-investor or multi-geography, low income housing tax credit funds or debt facilities to insure that institutions receive full weight in credit for those much needed activities; lessening the focus of mortgage lending and CRA exams, and perhaps most importantly, avoiding the use of the CRA as a vehicle for evaluating all of the concerns that may exist relative to the impact of financial products and services on LMI communities. We strongly believe that CRA should not become a panacea for an extremely broad array of retail banking compliance issues.

At this time I will focus on the topic of geographic considerations. The stated intent of Congress in establishing CRA was to insure that banks helped to meet the credit needs of the local communities in which they are chartered. By definition, the concept of local implies that those communities are surrounding in retail banks branch offices. The definition also implies that the institution has resources in those communities to help it engage in outreach to ascertain local community needs, develop partnerships with local organizations and to deliver products and services using its locally based infrastructure. Chase strongly believes that the current approach for defining assessment areas remain sound and provides sufficient flexibility to allow for the unique characteristics of institutions that don't serve their customers through a network of branches; such as limited purpose, wholesale, or even internet banks.

The Regs explicitly recognize that an institution's abilities to serve its markets and to meet community needs is very different in a market where the institution has a physical presence versus one where it doesn't. To the extent that products and services are provided outside of its local market or through third party providers, the activities are covered by relevant compliance regulations outside of the CRA, Chase does not believe it is necessary for compliance with those Regs to be a part of CRA ratings.

The expansion of CRA assessment areas to geographies outside of the bank's local markets may be the unintended consequence of discouraging responsible lenders from making credit available outside of its local markets, given the bank's limitations to meet CRA performance expectations across broader geographies. For example, Chase bank has over 5,000 branches located in 23 states and 263 CRA assessment areas. It also has some level of lending in every state in the nation, and in the overwhelming majority of the 953 metropolitan and micropolitan statistical areas; to expand its assessment areas by an increase of almost 700 geographies would stretch resources and risk eluding some of the most positive impacts of CRA on the bank's local markets. Such an expansion would increase the direct or indirect cost of providing credit in markets outside of its local markets and could lessen the bank's appetite for providing the much needed credit to areas of the country that are located outside of the bank's local markets. This would not be a good outcome for communities across the country.

Finally, Chase also believes that deposit-taking ATMs that are not available for the general public's use, such as those located at banks operating centers, and states where it has no other present, should not be a trigger for CRA.

In closing, Chase recognizes the value of the CRA and the critical role that it plays in helping to strengthen and revitalize local communities. We appreciate the opportunity to participate in this important process.

Elizabeth Duke:
Thank you. Ms. Rand?

Dory Rand:
Good morning. Thank you for the opportunity to testify today at these important hearings. Since this hearing is focused on the types of financial institutions that should have reinvestment responsibilities and the geographies where those responsibilities are assessed, I'll begin addressing those issues; but I would also like to take the opportunity to recommend some additional changes that our research has shown are necessary to improve how financial institutions are evaluated; improvement to the services test portion of the CRA, and improvements to the ratings and incentive structure of CRA. I'd also like to note that some of my suggestions will require legislative changes, which we hope Congress will address in the near future.

Woodstock Institute is a leading non-profit research and policy organization focusing on fair lending wealth creation and financial systems reform. For nearly 40 years Woodstock has worked locally and nationally to create a financial system, in which lower wealth persons and communities can borrow, save, and build wealth so that they can achieve economic security and community prosperity. With the passage of the Dodd Frank Act and the creation of the new Consumer Financial Protection Bureau that will monitor potentially abusive financial products and services, it's important to examine and improve strategies to insure equitable access to responsible and fairly-priced products. CRA has proven to be one of the best tools to achieve this goal, but it continues to do so only if the following changes are made.

First of all CRA must be expanded to include all types of financial institutions, not just depositories. The percentage of assets deposited in banking thrifts, which have community reinvestment obligations under CRA has declined dramatically. As financial assets migrates to other types of institutions such as mortgage companies and insurance companies, credit unions and securities companies. As these institutions take on a greater role in providing financial products and services to consumers, it's critical that we expand the scope of CRA to include them and to insure that it remains relevant. Mortgage companies and brokers are now much more likely to do loans in many of our areas. Mortgage lending is likely to occur without any coverage under the current roles of CRA obligations. It's critical that these companies and brokers that account for such a large share of the mortgage market be subject to the transparency and accountability that CRA requires.

Under the Dodd Frank Act a new federal insurance office will be established to monitor provision of insurance and collect and disseminate data on the insurance industry. We believe that using that data to inform the process, then insurance companies should also become subject to CRA obligations. Our research also shows that credit unions serve a much lower percentage of lower income households than they do the middle and upper income households. Credit union members receive significant financial benefits directly subsidized by federal and state tax exemptions, and as such credit unions should have CRA obligations as well.

Finally, security companies: access to stocks, mutual funds and other securities provide families with the opportunity to build long-term wealth. According to the 2007 survey of consumer finances, white families are more than twice as likely to hold stocks as are families of color. We believe that investments in stocks and mutual funds represent a significant portion of most American's retirement savings and an important component of the social safety net. Half of our workers lack access to retirement savings through their work. So we need to also cover securities' companies, which derive substantial profits from managing retirement savings and have a community reinvestment obligation that addresses this gap in access and opportunity.

So turning to the roles that you can do under the current CRA law, with respect to assessment areas--currently the CRA does not require banks to serve the financial needs of all the communities in which they actually lend, only where they have the bank branch locations and generally only the ones where the bank chooses to be evaluated. The new types of financial institutions, such as online banks, that have emerged and insurance companies have expanded to provide other products and services. Our research has found that CRA-regulated institutions lending outside of their CRA assessment areas had a much higher percentage of higher cost loans than they did while lending within their assessment areas. I think this goes against the suggestions that we've heard today about letting the banks choose their own assessment areas or limiting them to where they have headquarters or limiting them to deposit-taking areas.

To address these issues I'd like to recommend that assessment areas be defined as any state, metropolitan area, or rural county that has at least 0.5% market share and housing related loans, securities, insurance or other financial instruments designated as CRA eligible for purposing of establishing the assessment area. And I'll save comments on the service test for questions.

Thomas FitzGibbon:
Thank you. Good morning everybody. Boy, I'll tell you this is like preaching to the choir. There are about one third of you in this audience that I know in one way or another, so I'm Tommy FitzGibbon. I'm here and I'm not really representing my institution, First Michigan Bank, which I have part ownership in, or the other World Bank that I serve in the Board of Directors, the National Bank, World Bank. But I'm here really thinking about how the concerns of the practitioners in this industry sort of feel; the folks who are on the street in the community development field, the folks who are in the banking world to try to work through the community development process, and I think my testimony will reflect some concerns in that regard.

My testimony will focus on the need to address, to expand the organizations and institutions that should be covered by CRA, and the methodology for evaluating performance of those institutions and the current institutions covered by the act in rules. This is going to broach the subject of geographic concern, but it's not in the same context as the other presenters today. The elements of the examination process focused on the performance evaluation as well as the definition of wholesale unlimited purpose banks needs to be addressed.

The world has changed dramatically as we've talked about already. Major changes occurred in the rules in ‘91 and then updated in ‘95 to reflect the concern that regulated depositories should be measured for performance to ensure that they were lending, investing and surfacing in those delineated markets. Since that time, the migration internet banking as we've talked about before, wholesale and limited purpose banks as well as the explosion of barely regulated mortgage brokers and whole mortgage banking, has all but deluded the original impact of CRA intended by Congress. These situations combined with the significant consolidation of the regulated depositories--we probably have $8,000 today, probably going to go to $6,000. Got a lot of impending failures and we've seen 109 I think thus far this year and more to come. So the situation in effect results in a reverse bell curve. We've got large national banks, very few mid-sized banks that are sort of covered as community development activities under CRA, and very few smaller banks and getting fewer and fewer as we go along.

This while the consumer and small business loan demand has shifted away from non-depository channels to independent activities. So where do we go from here? Sort of echoing what Dory has said, the major players in the mortgage market at the point of origination since 1997 have been mortgage companies and mortgage brokers. I don't know how many of them are going to be left but these industries are regulated and chartered by individual states. At one point in 2007, there were more than 400,000 brokers in California alone. Illinois only had 3,000.

Was that a one minute warning? Two minutes--thank you.

As a member of the Consumer Advisory Committee the Board of Governors of the Federal Reserve System 2004 when we last looked at CRA Reform, I was asked by a representative of World Savings who was also on the Board if I supported more regulation. I responded in the affirmative. When we debated at that same public forum of about changing the roles to limit the scope of examinations for lower asset levels, I objected. Asset levels are merely one indicator of the role those depositories should be measured by. Thus, the non-depositories who originate loans should be guided by the same principles that depositories would be measured for compliance with the rules.

The designation of wholesale unlimited purpose banks must be changed to reflect the fact that these institutions also draw funds from consumers and small businesses and local markets, and loan in markets far away from their local community. I say this as an example one failed local bank here in Chicago that received an outstanding CRA rating as a wholesale bank grew significant deposits, $3 billion dollars or more, in the local market and virtually ignored any local community development efforts at all. Their claim to fame is they made two nursing home loans and banked the currency exchanges--wow.

I don't blame the examiners for rating the bank so high, but the roles that are in place for wholesale limited purpose banks give them no room for criticism. I know that what it takes to achieve an outstanding rating, and it is frustrating to be in the same class as this failed bank. It begs the question similarly about grade inflation and that subject should also be addressed with more granular rating system that provides much more detail regarding the performance of the institution.

Elizabeth Duke:
Thank you and thanks for all of you for really staying on time. Because you did we actually have a pretty good length of time for questions, so how about Jennifer, if you will try to monitor and help us keep the questions and answers to about 10 minutes apiece. If my math is correct that should give us a little bit of buffer there, and for this round I'll begin and then in next round I'll pass on the opportunity to begin.

I'd like to focus on the idea of assessment areas and geographic assessment areas for a bit, recognizing what all of you have talked about, which is there are a lot of different types of banks now and so defining assessment areas as being specifically where the branches are, may not be appropriate. And Ms. Seidman, I know your tenure as director of the OTS you were a big proponent for revising assessment area definitions so could you give us an update of what your current views are on that?

Ellen Seidman:
Certainly. During my tenure at OTS we were faced with some of the original internet and non-branch banks, and the question we faced was how to evaluate those, the performance of those institutions, in a meaningful way that went beyond their headquarters city, because we understood very well from the very beginning as we charted those institutions that they would be lending in other than just their headquarters city and in fact lending primarily in other than just the headquarters city. We worked on various strategies, and I think actually OTS has been recognized as attempting to face this issue a little bit more aggressively than others, maybe because we started earlier, and essentially tried to say, Let's look at what you're doing all over the country and see if where you are you actually are serving a reasonable proportion of low and moderate income consumers.

I think that is an okay solution. I actually think there are better solutions that are now particularly, as I pointed out in my testimony with respect to community development in contrast to straight out mortgage lending or the kinds of things that are susceptible to more quantitative analysis. And I think we ought to take advantage of the fact that many, although not all by any means, of these non-branch entities are huge and have the resources of enormous holding companies behind them. And we ought to understand that those are the kinds of institutions that can really make a difference in places where the local entities are insufficient, are insufficiently large, are insufficiently skilled, you know just need more help in order to be able to accomplish, to meet the needs of the communities, and also where there are special kind, or not where but there are special kind of needs that require a good deal of expertise in order to you know be able to do tax credit housing for special needs populations, equitable transit-oriented development. I mean you name it, there are any number of these kinds of needs. And that's why I'm suggesting not that we you know give everybody 750 assessment areas because I frankly think that would be a mistake. The exams for the large banks already take too long and generate too much paper and too little real analysis, particularly on the community development side. But I think that if these very large and the non-branch entities were subject to what we're calling an institutional community development test, you would be able to better match their capacities with the needs across the country.

Elizabeth Duke:
Thank you. Ms. Hughes mentioned in her testimony that for JP Morgan Chase, I believe you said you go from 200 and something assessment areas to more than 700 if you tried to cover your entire footprint where you do business. So for Mr. Pinsky and Ms. Rand, how would changes in the geography of the assessment areas match up with, how would that impact some of the CDFIs and others that are providing services, in terms of matching their geographic reach and also if you expand from 200 and some to 700, then you may end up with less emphasis on the areas that you're already serving.

[inaudible background comment]

Mark Pinsky:
Just pick up a little bit on Ellen's comments earlier and what I was trying to say earlier, which is banks like Chase, most banks are very good at understanding, having a strategic way about their markets and choose which markets they choose to go into and which markets they choose not to go into and why. And some of them may be that it simply doesn't fit with the product mix, some of them may be that the cost of delivering the services are prohibitive or that there's a risk involved or things like that. And so I think that where, very often where CDFIs, not everywhere but very often where CDFI's and others play a role is sort of helping to understand how to get into those markets and so you know a great example of that going back maybe 10 years was charter school financing where CDFIs were really in the lead on that. I think banks recognized that might be a good thing but there was a lot of risk or seemed to be a lot of risk. They didn't know how to do it. They didn't know the players, they weren't on the ground and it led to some really constructive partnerships, not just for the banks and for the CDFI's but for the charter school developers and for the communities and there's been a lot of good outcome from that.

And so you know my sense of that is, I don't think of it so much as, and I'm sure you do, as going to 750 sort of assessment areas or service areas. I think of it as, how do you think in an integrated way across the banks business strategy and therefore a footprint, how it's going to serve those communities. And what I'd like to do and I thought you may a really good point when you said that you know even a bank has, with as much to offer as JP Morgan Chase, can't be all things to all people. And I think part of this notion is we need to understand how, whether it's JP Morgan Chase or any other bank, how they see themselves intervening in a community, what they see themselves able to do, what they think they're not able to do.

To get to the other side of that, CDFI's are in all 50 states but the capacity is unevenly spread. There's a challenge to be good partners, in this context, to banks and others, local governments, state governments, and so there's a capacity challenge to it. But I think that CDFI's generally, when they're successful and not all of them are, are organized around a very thorough and close to the ground analysis of what market needs are, what community needs are, they are in touch with that and they become a tremendous source of valued information for anyone who wants to think about how you make investments and how you engage in those communities. And so I think that it wouldn't on day one be a situation where a large bank would find partners everywhere they wanted to go. But I think that that interplay, together with community input, would be really powerful in sort of figuring out how do you develop distribution channels that are actually meeting the community needs that were intended to meet? So

Elizabeth Duke:
Okay. Ms. Rand?

Dory Rand:
And I agree with Ellen and Mark that the assessment and the evaluation have to be tied to a much better analysis of community needs. And I think Ellen's suggestion was really interesting about having an interagency you know geographic based assessment that gives opportunities for community input, third party input, into what those needs are that the evaluations are then judged against. And so that can be used also in determining where you get extra credit or where you decide to have assessment areas for investing in things like CDFI's that do serve that important intermediary role. And I don't think that using the standard that I suggested of a half percent market share in addition to where you have retail offices or agents is overly burdensome. I think it's the reality that if these financial institutions are in those markets, they have a corresponding obligation. Now if they're only a little bit in the market, they would have a smaller obligation, but if they're getting a huge amount of business out of a particular market, it doesn't make any sense to let them out of evaluation because the bank chooses not to have a branch there or chooses not to be evaluated there. As Dan Emerglock's gonna say later, you know when a teacher is giving a test you don't let the student pick which questions to answer.

Elizabeth Duke:
For Ms. Hughes and Mr. FitzGibbon if there were, if the agencies had come up with a list of a definition of needs in various communities and you also had some sort of test of where you were doing business in those communities, how might you respond to that? I mean I get this vision in my head of sort of like a big bridal registry where you have all of these needs listed and you can sort of, you know say well we'll take these pieces and you take those pieces kind of a thing. So can you give me some idea how you might adjust that?

Thomas FitzGibbon:
I think one of the questions becomes, as Mark and Dory have said this whole idea of a community needs assessment. The difficulty, of course, is I don't envy the examiners. I don't know if there are any examiners here –I guess there are a couple – is you know a CRA exam is every three years, if you're okay, right? Maybe longer if you're outstanding. The community needs evolve and change. Think about what's happened the last two years in terms of the economy and jobs and small business failures and things of that nature, real estate collapse. So how do you come up with a, what I would call a rolling community needs assessment that enables the examiner to, in a valuable way, evaluate how that institution is performing? How is it meeting that need as well as what the needs are over time? I think there's a way to do it and I believe the CDFI's, the municipalities and others who perform such evaluative analysis from time to time, could be very helpful in that process.

Dory Rand:
I wanted to suggest one additional thing. In addition to having a broader sort of interagency needs assessment of community needs with public input opportunities, I also think it would be great if every covered institution were required to publicize its strategic plan or its view of community needs and how it intends to address it. This would contribute to the transparency and the accountability so that even in between the many years between evaluations, if a bank had on its website, for example, each year this is what we see as community needs in our area. This is how we're going to address it. This is who our regulator is. Here's how to contact them to make it much easier for us to have public input because these occasions like today are few and far between. We need much more opportunity for public input.

Elizabeth Duke:
Ms. Hughes did you have anything you wanted to

Lela Wingard-Hughes:
Going back to the question that you asked of myself and Tommy FitzGibbon, I think that it's also important to keep in mind that as an institution is looking at community needs, which is a part of what we do in our performance context, is we have to also evaluate our response to those needs related to risk, related to what relates to responsible practices, related to how it fits in with the organizations business strategy. Mark put it very well is that there may be a plethora of needs out there, we may not as an individual institution be able to be all things to all people, but we may be able to bring our unique expertise, our unique capacity to bear on one or two or three or whatever, number of these types of needs, but not address them all.

So I think it really is important to keep a balance here in terms of all the competing factors that an institution and a well run institution that's trying to service needs is on an ongoing mission, if you will, of trying to understand the needs of its communities and where it can help be a part of the solution.

Elizabeth Duke:
Thank you.

Martin Gruenberg:
Thank you, Governor Duke and if I may, let me begin by apologizing for showing up a few minutes late. I got caught in traffic coming in from the airport. And if I may I'd also like to thank Governor Duke and staff of the federal reserve for organizing today's hearing and thank the Federal Reserve Bank of Chicago for serving as a gracious host and also thank the panel for a very thoughtful set of statements and responses for what, in some ways, is the key issue for us to think about, the evolution of the financial markets over the last 15 years when the previous comprehensive review of CRA was done. Perhaps the most significant evolution has been the broadening of lending activity, apart from where an institution may have its branches located and the increasing use of electronic means, such as the internet to deliver financial services.

So trying to think about how CRA can be made relevant to that of all the market is both, I think a key issue and perhaps the trickiest issue we have to deal with because its presents challenges. If

I may, I'd like to back into that issue a bit by finding what I perceive is common ground among the witnesses here, which is in regard to perhaps moving toward a single community development test. Right now the community development test is divided between the lending the services and the investment test and there seems to be some sentiment for moving toward a consolidated community development test to focus attention on that area. Is that a view that's shared by all of you or would any of you have a different view on that?

Ellen Seidman:
I think it is definitely something worth looking at, particularly vis-a-vis loans and investments. Right now you've got a situation where community development lending basically doesn't count. Community development investments do, so you get loan structure as investments, you get lots of credit for buying NBS and CRA areas. I mean it's just, it is not a system that encourages banks to really work on the true needs of the community and to meet them in a way that's most efficient. I think there are a couple of issues that need to be looked at before jumping wholesale into it, which is why I suggested an evaluation of the ISP test. One is that the most valuable investment in an intermediary is an equity investment. And that is true whether the intermediary is a for-profit institution or a nonprofit institution, a stock institution or a non-stock institution. And I think there is serious concern that those investments would dry up if they could be swamped by just making loans, which having more immediate and certain return. So I think that's an issue that needs to be dealt with. Figuring out the services side is also tricky because there are many things, many kinds of services that, well I think there are several kinds of services that clearly fall on the community development side, all of the assistance, which by the way I believe should be far broader than financial expertise systems. So you know if some bank is providing its HR assistance to a CDFI that should count, which it doesn't right now. That kind of stuff I think clearly goes on the community development side. But you know I know there are questions like well housing counseling, is that a community development activity or is that just a plain old financial service that ought to be under the services test? So I think there are issues that need to be considered but I really think that this is one well worth taking a careful look at and you've got a pilot out there, make use of it.

Dory Rand:
Marty, I don't have a problem with Ellen's suggestions about perhaps combining some of the lending and investment tests together. I do think it's important to have a separate test that deals with retail banking services. Basic banking services have always gotten short-shrift under CRA and it really needs to be updated. We're left with things like numbers of bank branches open and closed, ATM's and that's about it. And we have really important studies like the FDIC study on the unbanked and underserved that show how many millions of Americans don't even have a basic checking or savings account. We need to make sure that banks are serving those needs as that first step up the economic ladder and to collect that data and evaluate the banks, not just on having a product but on making sure it's being used in the community in a way that's affordable and sustainable. So we would like to see, for example, data collection on numbers of accounts, types of accounts, Census track location, number of new accounts opened, age of account, percent of bank income generated by fees, things like that to really make it a strength and service test.

Lela Wingard-Hughes:

If I could add back on the conversation of a community development test, I strongly believe that community development, particularly community development lending, is undervalued in the current exam. I don't think that it doesn't count. It definitely counts, but it's a challenge when it is grouped with mortgage and small business lending for which there are publicly available benchmarks that really get to some really key metrics. And then you have an activity in the same test, really which is quite complex, isn't counted in terms of units but in terms of impact in a lot of cases. I think the current structure undervalues that and creates an odd mix of activity being evaluated in the same bucket, if you will. I think it also under, it doesn't give the appropriate level of consideration that there's a need for both rental housing in this country as well as home ownership. So this focus of 50 percent of your weight comes from the lending test, which is greatly influenced by mortgage lending activity, and then you would put our community development lending in there. It's probably not the best way of evaluating those types of activities. There's also the kind of the nexus between a lot of the community development lending activity and a lot of the community development investing activity. And we've disconnected those two pieces by putting them in separate buckets, and there's really no effective way, I believe right now, of evaluating their combined impact with the test being structured the way it is.

Mark Pinsky:
If I could just quickly add to that, I mean I think we need to just put on the table that certainly not all banks are alike, right or all banks are not alive, is another way of saying that, right? And I think that we need to recognize that, the community development test, yes I think it's important, as Ellen said I think it should be in the mix and we should figure that out. How you apply it may vary, in my mind, may vary depending on what the banks business strategy. If the banks that's totally focused on mortgage lending, you may take a different look at it. You may take a different look at it, you may view the community development on the test then you would if it were a, you know any other you know whether it's small lending or anything else.

So I just think that, I think that we need to get to the point to get to that idea that markets change quickly and business strategies change quickly and it's not so easy for regulations to change quickly. That we build in the ability to say it depends.

Thomas FitzGibbon:
I wanted to follow up on a couple of things that were brought up here. Number one is that for the large majority of banking institutions, suppositories in this country, they're not evaluated under the performance context. They're evaluated for lending, that's the largest number of them. And the community development test is an option for them and so I think one of the things we should consider in this whole process is whether or not the asset threshold is appropriate, right? Is it low enough, if you will and whether or not the community development test for those institutions not covered under the performance context should be a mandatory, or at least more than just an option for the depository itself? Second is, and I echo what Dory and others have said here, is that this whole -- I'm probably the only banker who's actually been there as a banker for the whole 33 years of CRA, in fact I go back before that when community development was something you did as a natural thing in your market. But this whole emphasis of lending service and investment that 50, 25, 25 is a real problem. And third, and Ellen I really have to say, [laughter] one of the issues is so often it's the story. How do you tell the examiner what you did

and what the impact was? How do you articulate, as a lender, the fact that you provided HR sources or HR assistance for an institution? How that overall impacted that institution, that organization in terms of its financial support, in terms of things of that nature so I think a great share of it is not just you know whether or not it's specifically identified as a financial services thing, but how does the institution itself articulate what it does?

Elizabeth Duke:
As we move on, Mr. White, as I would point out that had I not turned regulator I might have also been a banker through the entire history of the CRA.

[Laughter]

My time is up

Martin Gruenberg:
Well I'd like to thank the panelists for very insightful testimony. I'd like to start off by asking Ms. Wingard a question about a topic that was touched on by some of the other panelists and that relates to a bank coming up with its own capacity analysis and plan more or less or more to an option which exists today which is the strategic plan option that only a very small number of banks, particularly large banks, have chosen to avail themselves of. I'm interested in your views as to what you've heard from some of the other panelists, Ms. Wingard, regarding a strategic plan and whether or not that approach would have some appeal to JP Morgan Chase bank in addressing some of the challenges that have been raised regarding addressing the large geographic issues that have come up.

Lela Wingard-Hughes:
So JP Morgan Chase has not taken advantage, as you've noted, generally of the strategic plan option, as has very few banks. And part of that, I would say, is because, while we do plan, and we plan continuously, our plans are flexible and it is our view that they are proprietary, and then in some ways they are an element, they are continually moving and so we might review our plans, our goals, our strategies as our communities change, as our markets change, as the economy changes. And I think in expecting us, any institution, to share its business strategies and goals in a public forum subject to you know regular updates, etcetera, would be one of those things that makes the process overly burdensome. And in fact you know aiming for the best CRA ratings, aiming for trying to secure the deal, whether it's a tax credit deal, whether it's a loan, a community development loan, whatever it is, it's a competitive exercise. And so for us to kind of compete in that public forum by sharing our business plans, I think would be not only burdensome but not really feasible.

Dory Rand:
Well I'll just chime in that one of the bankers here that I spoke with this morning said that she thought using the strategic plan made a lot of sense and they were going to use it constructively to reach areas outside of their current assessment area where they know there are community needs that need to be met.

Thomas FitzGibbon:

I think it's very important, although I think the proprietary nature of business plans, of large institutions, gives them a competitive advantage over small and middle market financial institutions. Small and middle market financial institutions also plan. I mean we do, well we have, Sue LaPore is here, she can tell you, we go through a very significant, at one local bank that I used to be at, process of planning our work and working our plan. And there's nothing wrong, I think, with sort of sharing the general nature of the plans for the institution to address community development needs. I think that's something that frankly we do as an institution with our peers in this business. We don't hear a lot from the larger financial institutions because their plans are generally made in New York or Charlotte or someplace else. And so there's I think an opportunity for partnerships, strategic partnership, with the large money center banks and the regional banks if there's perhaps more open communication about where things, what the plans are for the institution.

Mark Pinsky:
Just a quick comment, one of the things that I've heard from a number of bankers, and I think it's a legitimate concern for them, is the amount of, sort of on the back end, the amount of conversation they need to have, you might say complaints they have to deal with right on the back end about why are you doing this and why are you doing that? It seems to me that you know absolutely the proprietary parts of any business strategy and they should be that. On the other hand, you know there are a lot of smart people who spend a lot of time figuring out what any, you know certainly what a bank strategy is and some of those are competitors and some of those are others. And I think that the idea of being able to be proactive and putting out a strategy is being able to sort of not only say here's what we're going to do and here's what we're not going to do and have that conversation up front with the community in some way, right? And sort of come to some agreement or agree to disagree. But it also then helps partners, particularly CDFI, say, okay we understand this is a market you don't think you can manage or doesn't fit with what you're trying to do because of the risk profile or because of the, you know, lack of familiarity or whatever, but if that's something, you know we can have a conversation with you about, if we think that's an important market, we can figure out how we can intervene in that market and perhaps bring it to market, in a sense. So I think there are advantages. I certainly respect the fact that you know I wouldn't want to give away my strategy if I were you either but I think there's some in between that is worth at least considering.

Lela Wingard-Hughes:
If I could just add one other thing, Barry and some of this might be semantics because I agree with something that Mark Pinsky said earlier about not making this an adversarial process. And so as you said we're preaching to the choir here. We're here because we care about the communities. We care about helping them thrive and we sit down with partners whether they be not for profits, whether they be financial intermediaries, what have you, and talk about what the needs are and where we are responsive or not responsive, in their view, what things we are doing to kind of take those kind of dialogues that are happening across our markets, across the country and call that a plan, is not what the plan is.

Those are really ascertainment and looking for opportunities to partner. We then go back to our shop and try to come up with our business plans. So I think the nuance is in the language here is, are we talking about outreach and ascertainment and kind of partnership conversations or are we talking about an institution’s real plans for delivering products and services and goals and things of that nature, which I still believe are proprietary.

Martin Gruenberg
From what I gather in hearing your responses, I think it gets to a question of how much is enough and where. And that's been the age old problem that we have faced as regulators, and I'm a little bit concerned from what I'm hearing that if we did move towards an approach that some of the panelists have proposed, that we'd fall back in the lap of the regulator to decide that question. Okay, well, you're in 800 quote unquote assessment areas because you have more than a half a percent activity, but I'm also hearing some of the panelists saying but how much you have to do if you only have a very small percent versus a very large would vary. But at the end of the day it would be up to the regulators, I think from what I'm hearing, to make that decision and it causes me some concern for us to be in the roll as regulators of having to make that decision given some of the comments that Ms. Wingard just made about the bank being in the best position of knowing where they have the capacity to do what.

So I don't know if anyone would like to respond to that observation but if so I'd be interested in hearing your comments.

Ellen Seidman:
I would like to respond. First of all in the end it is always the regulators and you can't get away from it. Refusing to in advance say how much is enough only creates a situation of great uncertainty and then after the fact saying whether enough has been enough.

And I think what, I know I'm advocating and I think several others, is trying to get more of that up front in a number of ways. The idea of actually assessing community needs on an interagency basis, you know you can pilot this, you can do it in a few places to start, you don't have to go whole hog all at once, but that gives you something to measure against. The idea of a strategic plan, you know I think we get into this well we want certainty, but we don't want to put something out there against, which we would be measured. The great advantage of a strategic plan was always that once you had it, you knew what you were going to be measured against. And so particularly for community development activities, which take a long time, which are collaborative, which are partnership based, we do require fairly frequently resources from other sources. You know doing it in advance and then knowing that it will count has some enormous value. You know, I don't think -- and then the third thing is this whole issue of examiner judgment. We've just got to get away from the notion that examiners can't exercise judgment. They exercise it all the time in the safety and soundness side and we've got to recognize that this is in some ways even harder and we've got to let them exercise it. We've got to train them well and we've got to have reviewers within the agencies who are trying to create some consistency across agencies and within agencies and all to some sophistication. But I think you can't get away from the fact that in the end, it is the regulators.

Thomas Barnes:
Okay so we're outside the box now, right?

Voices:

Yeah

Thomas Barnes:
This is all new.

[Laughter]

Thanks everybody for participating today and it's an honor to be here. For the panelists, if you take the theory that there may be a community needs analysis done in some number of cities and it's also been mentioned by the certain panelists that there should be other folks subject to CRA, other than the FDIC insured institutions. Now take that idea and tell me how we do that. Who do we hold to this and how do we hold them? Ellen mentioned you know examiners in the classic sense and I'm sure in the credit union there's examiners but what about the other places you'd bring in? So who would you bring in and how would we look at them and how would we then make an overall determination?

Because one of the big problems I think we've had over time examiners on up is you're looking at a piece at a time, one financial institution at a time. And that's what's required but somehow you've got to find out if that whole communities needs are being met principally or not at all and somewhere in between is where most of it takes, particularly if you look at small institutions, and you can define small a whole bunch of ways. But you have an institution that's only doing business in a couple of assessment areas or one assessment area or a portion of you know, their assessment area is a portion of a large area, then it's both easy to understand what the expectations are, but difficult sometimes to say if they're meeting enough. So help me with who the new players should be in this and how we should look at them.

Ellen Seidman:
I might just say two things quickly and then I'll let, and then other people can talk. One is that in terms of existing statute, you know there is some limitation. I would certainly say however that any activity that is carried on within a bank holding company that could be carried on within a bank, the entity that carries it on ought to be covered. So you know now there is the danger that this will lead to pushing things out. It's sort of the same problem we ran into with subprime lending, and so I think it is, you know, there's some analysis that needs to be done here but I think that as long as entities are taking advantage of the structure of a bank holding company, they ought to be able to pick and choose which things are inside a CRA and which things are outside a CRA, if that thing could be done in a bank. You know, I think we need to deal with insurance or insurance underwriting at some other point, although insurance brokerage is okay. The second thing is on this issue of measurement of ,is the communities need really being assessed, really being met, that's why I put in the proposal for a community needs and capacity's analysis because what it does then is it gives everybody an understanding of what the overall needs are. And it allows an evaluation of what folks have done against those needs, and it's not piece meal, each institution at one at a time in each assessment area at the time the institution is examined. It's before the fact. It's community wide. It's something that everybody can shoot for.

Dory Rand:

I agree with Ellen, and would just add that if we go beyond the current statutory limitation to FDIC insured depository institutions to some of the other financial institutions that I mentioned, then we have that much more capacity out there to meet the community needs and every financial institution doesn't have to be all things to all people, but if we have a comprehensive community assessment with community input then each financial institution can find its place where it can use its services and expertise in the best way and try and do that patchwork and put the pieces in place.

Thomas FitzGibbon:
I guess you're asking, Tom, Mr. Barnes, I'm sorry

Thomas Barnes:
No, Tom's fine

Thomas FitzGibbon:
Tom

[Laughter]

What you're asking is how do we get these other institutions, right, into review?

Thomas Barnes:
Remember we're here to serve the community and other needs

Thomas FitzGibbon:
But it's not easy, right, but nobody said this was going to be easy. 1991 the financial institutions reform, recovery enforcement act basically took the pound of flesh the banking institutions for RTC and for the failure of the thrift industry and said you will start to, these things are going to be public. You're going to be evaluated under 12 assessment factors, remember 12 assessment factors? I remember those.

And so what's happened? Well we bailed out Wall Street, right? In some cases we bailed out the insurance industry with AIG so maybe this isn't in the regulator's hands, maybe this is in Congress's hands. Which says, in effect, if the American public is going to bail out, by the way the RTC was chump change compared to what we're experiencing today, is we need to bring them in under the same rules and oversight for community development investment and lending that the regulated depositories are.

In effect, as Dory and others have said, American public has migrated from the local savings and loan, the local bank, to Wall Street in many ways, with stocks and bonds and mutual funds and things of that nature, so somehow, you know, it's not in your purview to get them under there but I think that pushing the envelope, certainly the FDIC with its role in providing insurance of accounts is one area where we can begin to see what the devastating impact of bad Wall Street leadership has done to the industry. To be able to push the envelope a little bit, I know the chairwoman and she's been a strong advocate for safety and soundness and for recovery here. So maybe it is Congress that needs to bring them in. But certainly there are things at the statewide level that we could be doing, for the insurance industry, which is state regulated, the mortgage banking industry, which is state regulated, and the mortgage broker, so pushing the states as well to provide more supervision.

Dory Rand:
And as far as Congress goes, what we would recommend is passage of the Community Reinvestment Modernization Act

Thomas FitzGibbon:
Right

Dory Rand:
1479

Thomas FitzGibbon:
Right, I'm sorry

Mark Pinsky:
We have an uneven playing field, right, that tends to lead to certain distortions, you know lots of ways, not just community reinvestment or community development activities but it certainly has that ramification. One way to think about this is to think, you know Tommy pointed out the scope of what was bailed out, the scope of sectors that were bailed out in some ways. And you know there's this interesting question you could say to folks, alright you could not have any CRA or community reinvestment obligations but you don't have any backing, right? You don't have FDIC. You don't have any other backing. Would you choose that or would you choose to have the backing or would you choose to have, you know including sort of the option of the bailout? I think in this environment certainly I think I know where most financial institutions would choose to go if that were the choice they were given. And by that I mean broadly. I don't mean just banks or other. And I think, look my view, my organizations view is that all financial institutions that rely in some way or another on taxpayer backing ought to have some obligation to be reinvesting in communities in some way or another.

Easier said than done, easier said than imagined, right but to do it, I don't know. I mean, my sense is that you have different regulators and different beyond the four of you, over much of the financial services industry coming out of the foreign belt. And you know if we made it a 15 year goal to figure out how to do that, if Congress chose to do that, I think that would be a good thing. It would be a lot of hard work, Tommy is right about that but I think that's where we need to get to in some way or you're going to continue to have these folks who can take it out of the holding company and put it somewhere else, you know and you know good for them. They should do that if they're given that chance to do it. It's legal. It's fine. But we need to make that not an option.

Lela Wingard-Hughes:
I still would like to suggest that we be extremely thoughtful about trying to make CRA the solution for a wider variety of concerns beyond just community reinvestment. And when I think about the, some of the proposals, the house bill that Dory mentioned and some of the other

suggestions, I go back to, what are the problems we are trying to solve and what are the most effective ways to solving them? And I don't always end up in a place that for a particular problem, CRA is the answer. So if there's a problem related to insurance, should that not be covered by the insurance regulations? I think those are things we need to keep asking ourselves is what's the appropriate solution for whatever the problem is we're trying to address.

Thomas Barnes:
So I have one more question from sort of that macro question, very, very smaller one with regard to assessment areas, should the financial institutions be allowed to have different assessment areas for different products?

Thomas FitzGibbon:
I never thought about that. It's an interesting prospect.

Mark Pinsky:
I would say yes

Lela Wingard-Hughes:
I think that's a very interesting question, particularly when it comes to community development. For investment in multi geography funds or investments, one of the attractive things about that is not only that it spreads risk, but it enables like the big syndicators who do the tax credit investing that creates a lot of the affordable rental housing in this country. They can serve both urban and rural markets by packaging a number of transactions in one offering. The challenge for institutions that have CRA assessment areas that they're trying to target their dollars too, is that a lot of times there are projects in those packages that are outside of an assessment area. A lot of times those are in rural communities or in smaller communities for the banks that are there, those smaller banks don't have the expertise that Ellen mentioned to be able to do these types of deals. So it does raise for the community development aspects in my mind, a question about, should there be greater flexibility in that broader regional area, if you will, for community development lending and investing.

Ellen Seidman:
I think you can go about it another way also and this is an also. This is not an or. When it's Mark's suggestion about investments in CDFI's counting just the way investments in women in minority on banks count all over, it doesn't matter whether the geography matches up, and the second possibility is this idea of an institutional test for the big institutions. On the brick and mortar test institutions it would be in addition to. On the non brick and mortar tests it would be the test, and that way you would have the ability to extend your activities, community development activities in particular, into areas that have the greatest need, without worrying about whether you're collecting deposits in that area.

Elizabeth Duke:
Okay, thank you very much. This has been a very informative panel. I will reward you with time to take a minute --

[Laughter]

--and leave us with whatever thought you think is important to leave us with or something that you haven't had a chance to say in this first part. Want to start?

Ellen Seidman:
I think we've actually said a lot here today. I do want to echo what Mark and Dory and some others said, which is that you really are operating at a big disadvantage because of the structure of the financial services system. And we've just seen a major reform in which there will be a much more unified regulatory way of looking at the financial services industry and building on that, in order to extend the obligation to serve community needs, should indeed be a long term goal. You shouldn't be doing this forever with one hand tied behind your backs.

Mark Pinsky:
Just thank you and thank you again for convening this. It's been great. And thanks to my panelists who've offered many great ideas.

I think that what we need, we need to get to a point where we understand what we're talking about here is not CRA as that other thing out there, but CRA as or investing in our communities and investing in long term and low wealth people in places and communities as sort of fundamental to our common well being. And I think we tend to lose that in this discussion. And I know that, I know that at you know the regulatory industries and the banks and some of the non banks, there are people who understand that and believe that very much but until we make that the culture of this conversation I think we're gonna be pushing a rock up a hill, and it becomes very difficult. And so I think one of the goals here has to be to understand the value of what gets done from this and whether it's through CDFIs or CDCs or direct lending investing or services, that we need to understand that ought to be part of sort of the core business strategy of what we're doing here so

Lela Wingard-Hughes:
Okay and I think this has been a very important conversation and I thank you for including my institution as a part of the conversation. I guess one of my, if I want to just make one point is that I think in a lot of the process and kind of the parameters that we find ourselves in when we're looking at CRA exams, kind of we could cut up into numbers and where it's done and not in paying enough attention to the qualitative impact that it makes on the quality of life in the communities in which we do business, in which we live, in which we work and that big picture of the qualitative and the impact needs to be really thought about at the top of the list here and not get so hung up on the minutia.

Dory Rand:
Thank you again for doing these hearings and inviting me to participate. I want to emphasis the importance of public input throughout the process, not just today but as CRA is modernized. Also I agree with Governor Duke that we need to focus on impacts, not just process. I agree with Lela that we need to focus more on quality but quantity and data is still important. And I think there's a way that those ideas can be incorporated into a better grading system.

Right now we have a lot of grade inflation almost everybody gets a satisfactory or higher. Maybe bring satisfactory down to where it should be. That's average, and in order to get to an outstanding rating and to get other incentives or benefits from an outstanding rating, that you have to go above and beyond in certain ways and maybe that's where some additional, you know, quality or complexity or innovation gets factored in so that we don't end up with banks like Tommy described who are not outstanding at all and somehow ended up with an outstanding grade.

Thomas FitzGibbon:
I also want to thank you for allowing me to come and talk today. I think, speaking for those who toil in the field, the community development people in the banking industry, the folks in the nonprofit industry are trying to sort through this sort of very difficult economic condition that we're in, is that whatever comes out, that there's real clarity and consistency. Those who have to go into the boardrooms and beg and plead for resources to help their community because that's their profession, because that's what they're supposed to do, need to have real clarity and consistency whatever comes out so that they can go in armed with the information necessary to make things happen, make things happen in their own community.

There are some wonderful people in this business on the banking side and on the community development side, who want to do the right thing. And there's a lot of banks frankly who want to pass. They don't want to fail. This is the only publicly documented part of the examination process, and so I think they want to do the right thing too as well.

And last but not least, we're into a cycle here where it's about preservation of the industry. And so this next year to two years is really going to be a difficult time in the community development field, both as CDFI's and as professionals in the industry, to be able to get resources from the depositories due to the very difficult economic environment that we're in. So we're looking to you, we're looking to the regulators for the kind of guidance that will give all of us the kind of information that will make things happen.

Elizabeth Duke:
Well thank you. Thank you to all of you. You set the bar high in this first panel.

Alicia Williams:

Okay so now we have our scheduled break and we're gonna start at 11:00. So if I can ask panel 2 to be at your places at about 5 to 11:00 so we can start at 11:00.

[Applause]

[Break]

Alicia Williams:
For those of you who have just joined, my name is Alicia Williams, and I just want to repeat that if you could put your cell phones on mute or turn them off. And if you’re sitting up here since we’ve got a new group at the microphones, if you could put your cell phones underneath the desk

because that interferes with the sound system. Also I should repeat that you have five minutes. Jennifer there is our timekeeper and she'll be showing you various signs. Also we have a little device there. It's green when you start – that shows you have five minutes. When it turns yellow, you have two minutes. Jennifer will give you a sign for one minute. When it turns red, you're out of time. Okay?

Thank you, and I'll turn it back over to Governor Duke.

Elizabeth Duke:
Thank you. And I will warn Panel Two that Panel One set the bar very high for both substance and brevity, so. Let me start by introducing the panel with Eugene Ludwig who is Chief Executive Officer of Promontory Financial Group. And as he reminded me as we were getting seated, formerly the controller of the currency, and so the last time he attended one of these hearings, he was actually sitting on this side of the panel. So, we will try to do as good a job as you and Larry Lindsay did in the last one. Next we have Reverend Dr. Eugene Barnes who is Chairman of the Board of the National People's Action. We have Christine Freund, Vice President at First Eagle Bank, Dan Immergluck, Associate Professor, Georgia Institute of Technology, and Mike Mantle is Senior Advisor at Morgan Stanley.

And so with that, we'll begin with Mr. Ludwig.

Eugene Ludwig:
I want to thank the Federal Reserve of Chicago for hosting this hearing to discuss the Community Reinvestment Act and I want to commend all our federal bank regulators for their leadership in undertaking this endeavor to consider enhancements that will advance the cause of equitable credit availability, promote sound lending practices and otherwise ensure the availability of banking services to underserved communities. I'm deeply honored to be here. I have a tremendous amount of respect for our federal officials who are conducting this hearing today.

More than 33 years have passed since the CRA become law and in that time it has done and great and measurable good. At the same time, since its passage and particularly in the past three years, we've witnessed extraordinary changes in finance. The task today is a worthy one: to examine how the CRA can contribute most effectively to shaping a stronger but equitable financial system. Although the CRA has been the law for decades it has always attracted its fair share of debate. Bankers have sometimes criticized the CRA as unnecessary and burdensome, particularly the small banks. That criticism was more prevalent before the Clinton Administration's 1994 regulatory reforms of the CRA, which is a controller I was honored to be part of. We accomplished the changes, I think, which were needed at the time by eliminating unnecessary burdens on banks and by assessing actual performance. I might add that the credit made available to low and moderate income Americans through CRA programs during this era was not only transforming for low and moderate income communities but it was almost without exception, profitable and safe.

Unfortunately, the CRA is not keeping up with innovations and trends in the financial industry, most notably industry consolidation and non-depository lending, and this is eroding the acts of effectiveness. The financial services business and the matter in which financial products are structured, offered, delivered and held by institutions and investors has fundamentally changed since 1977. At the time Congress was debating the CRA back then, banks were the dominant financial services companies and were the dominant debt holders. Banking was still largely a local matter; trillion dollar coast to coast banking operations were on the very distant horizon and not the reality.

Over the last 35 years however the banking and thrift industries have been losing ground to the other financial services companies as has community banking. The result is that non-bank lenders now hold more credit market assets than do banks and thrifts, and the largest banking organizations in America worth the community banking sector. Vigorous application of the CRA is as necessary now as it was in 1977. In order to ensure that there continues to be a flow of investment on fair terms to LMI neighborhoods, reigning in the excesses of subprime lending may have a disproportionate impact on LMI areas, especially if lenders and investors take away the wrong lesson from the experience: that LMI borrowers are not good credit risks, which is certainly not the case. Indeed, inner cities and economically declining regions require large capital investments and infrastructure and the demolition or rehabilitation of dilapidated properties if they are to be attractive environments for private capital investment.

How then do we reconcile providing credit to the underserved while at the same time protecting consumers in the economy? I recommend the following: 1. Apply the obligation to meet the needs of LMI neighborhoods and communities to non-bank financial services companies. Their share of financial assets now exceeds those of banks and thrifts and their holdings continue to grow. The Federal Reserve is in essence open to supporting almost all large financial services companies regardless of charter in the storm, broker dealers, insurance companies and credit unions should be covered by the CRA at a minimum. Ideally, the CRA would also apply to all over major financial institutions important to the maintenance of a stable economy, such as hedge funds and private equity funds of any entity that has over 250 million in assets consistent with [inaudible] Gram-Leach-Wiley small bank cutoff. 2. The holding company structure allows banks to reduce their CRA obligations by pushing activities out of the bank into the holding company affiliates; and this has been going on for awhile and is common in the mortgage and consumer lending areas. This anomaly needs to be rectified. 3. In many cases the area served by a bank is no longer self-evident or defined by a geographic community. Virtually all the top 50 banking companies have extensive interstate banking operations. Anchoring CRA obligations to the LMI area surrounding a charter or headquarters location, does not often reflect the reality of their businesses or their impact on LMI consumers.

I think I'm out of time. I have the rest of my testimony with the additional recommendations which I've submitted for the record so if the panel is okay I'll then stop there.

Elizabeth Duke:
Okay. Thank you. Mr. Barnes?

Eugene Barnes:

Thank you. I'm grateful to have been invited here this morning to share with you a few observations. I'm Reverend Doctor Eugene Barnes and I'm appearing today as Board Chair of National People's Action of Chicago.

CRA was pioneered by NPA. NPA helped pass the Home Mortgage Disclosure Act of 1975, the Community Reinvestment Act of 1977 and the National Affordable Housing Act of 1990. Community leaders including the late Gail Cincotta, NPA's founder and long time executive director, was witness to the social pathology of redlining in their communities and said enough is enough. On the floor a church based here in the City of Chicago, the law was written down, taken to Washington and the law was passed. The CRA was passed in 1977 with the simple goal of indiscriminatory lending based on race or location and to insure that banks met the credit needs of all the neighborhoods and populations they serve.

The world has changed but the CRA laws have not. Philosopher Nathaniel Brandon pined, "Continue to do what doesn't work, doesn't work," and we find ourselves as Don Quixote did, fighting a modern day war with antiquated weaponry. On fairness and accountability in grading, the grading system must be completely overhauled to a more transparent point system that scores for lending, investment, community development and service tasks. The entirety of banks and investor must be taken into account. Points must be taken away for predatory investments such as Bank of America's investments in Advance America that tears down communities and strips wealth. Whenever evidence tends to support lending and service outcomes that show racial discrimination, the action must lead to an automatic failing grade. All accounts and account practices including loan quality must be taken into account. In-house payday lending programs like Wells Fargo's Direct Deposit advance must be penalized for harming families instead offering affordable small-dollar loan programs that would truly meet the credit needs of the community. Three out of every four customers of big bank affiliate home lenders receive the high cost loans which average 10.2% APR on first lien mortgages in 2006. Yet note some of the subsequent ratings--Bank of America, most recent exam 2006: outstanding; Wells Fargo most recent exam, 2009: outstanding; Citibank, most recent exam 2009: outstanding; Chase, most recent exam 2008: outstanding.

Observation on affiliate lending--As stated above the mortgage lending market that exists today does not resemble the one that Gail and colleagues wrote the law to address. In addition, the Community Reinvestment Law does not cover a large amount of the actual lending that goes on in this country; and it's clear that while banks were involved in questionable lending behavior and still getting good grades, it has been discovered that they're doing even worse lending in the subsidiaries and affiliates. Big banks have used their affiliate lenders to issue a disproportionate amount of high cost lending especially to minority and low income borrowers. NPA will be releasing tomorrow a report called, “Gaming the System: how large banks have subverted community reinvestment.” Just one quip: Big banks affiliates issued only 17% of the loan volume but were responsible for 40% of all the reported high cost loans of the major banks. All affiliate and subsidiary lenders must be included in the community reinvestment exams and be subjected to the same quality standard outlined above.

On assessment areas--banks have avoided scrutiny under the law by suddenly lending to their largely unregulated subsidiaries and affiliates; and have been doing a great deal of their business away from the law by restricting where they are graded to their assessment areas. Assessment areas as drawn today do not reflect where all bank lending is happening, just where the lending is being graded. Every bank CRA performance is measured against its lending to low and moderate income areas and individuals within their assessment area. Because lending outside of the assessment area is ignored, it is important to capture as much of the bank's lending area as possible within the scope of this ability to be able to serve a geographical area. Analysis of assessment areas of recent home lending data of the four largest banks shows that approximately 40 percent of the total loan volume issued in 2006 and 35 percent of all loans made in 2008 occurred outside the lender's CRA assessment areas.

In conclusion, smart regulatory reforms are necessary to ensure transparency, accountability and equality in the financial industry, lending and investment practices. Billions of dollars have been reinvested in inner city communities and small cities and towns to revive abandoned streets and neighborhoods. I see my time is up.

Elizabeth Duke:
Thank you. Ms. Freund?

Christine Freund:
Hello I'm Christine Freund, Vice President & CRA Officer at First Eagle Bank. First I'd like to thank you for the opportunity to speak at today's hearing, and then I'd like to take just a moment to provide you some background information about the bank.

First Eagle Bank has approximately 325 million in assets in two locations. We have one branch located in Hanover Park and the other is located in Chicago in the West Loop. The bank was originally chartered as a national bank and regulated by the OCC until 2007 when we flipped charters and became a state chartered bank that is now regulated by the Federal Reserve. When we under the regulation of the OCC, we were examined as a small bank until meeting the threshold to be examined as an intermediate small bank. The bank was first examined under this new category in 2007, and then most recently by the Federal Reserve in 2009. Therefore, speaking from the perspective of a community bank that has been examined as both a small bank and an intermediate small bank by both the OCC and the Federal Reserve, I'd like to comment on a few of the measurements utilized by agencies when evaluating CRA performance.

First, the addition of the intermediate small bank category that was introduced in 2005 eliminated the data collection and reporting burden, but it also created some challenges without an approach and analyzed the requirements for the new community development portion of the exam. There are many great areas at this portion of the exam which has somewhat been clarified over the years with the release of each interagency Q&A. Even with some clarification of what qualifies as community development, this portion of the exam remains the most challenging as there are no clear criteria. It is difficult to determine how much in investment's lending and services is required to receive a satisfactory rating or to achieve an outstanding rating. The current approach by the agencies is to valuate community development from both a quantitative and a qualitative approach. After being examined by both the OCC and the Federal Reserve, I feel that there could be more emphasis put on the qualitative approach. There are many instances where the amount of the investment or the loan may not be very large, but it has a significant impact on an organization or the community. The same applies for some of the services an institution may provide or its support participation with various community groups.

Also, for an intermediate small bank a small business loan that qualifies as a community development loan, should also be considered for analysis under the lending test. Currently these loans are excluded from the lending test if the institution elects to have it considered under the community development test. The lending test and the community development test are two different tests for an intermediate small bank. Therefore, these loans should be considered under both similar to the analysis of a multi-family dwelling loan. Under the lending test I'd like to stress the importance of the agencies to continue to place greater emphasis on a bank's primary lending focus, especially considering the decline of mortgage lending made by both small and large institutions. When CRA was first enacted the majority of mortgages were made by regulated institutions, whereas over the years the majority is now made by non-regulated institutions, shifting the bank's focus to other types of lending.

I'd also like to touch on the advancements in technology and its relation to the geographic cover aspect under CRA and servicing the customer. For most small and many intermediate small banks, the current geographic model is still appropriate given that most are branch-based and are slowly and cautiously adopting new technology to service its customer base. This may not be the case for larger institutions that have adopted and embraced new technology at a much more rapid pace. The agencies will need to consider what approach would work best to take this into consideration if banks are using technology to effectively service its customers including the low and moderate income consumer.

There are also various thresholds that are utilized to determine which exam applies to an institution in the various tests. The averaged-sized thresholds that apply to an institution seem appropriate and are adjusted annually. The thresholds that the agencies may consider adjusting at some point would be those used for small business lending. Both the dollar amount of the loan and the revenue of the business have a current threshold of a million which have not been adjusted. And lastly, I would like the agencies to consider additional incentives for banks to achieve an outstanding rating. One example may be longer periods of time between exams.

Again, I'd like to thank you for this opportunity.

Elizabeth Duke:
Mr. Immergluck?

Dan Immergluck:
Thank you. I'm Dan Immergluck and I'm from Georgia Tech in Atlanta but a lot of folks in this room know that I spent a good number of years here with the Woodstock Institute and doing community development finance. But over the last 15 to 20 years I've studied CRA quite a bit.

In general, I want to make two broad comments--one is that as lots of folks have said, CRA has suffered from decrease in coverage in a variety of markets over the last 30 years and it isn't just since 1995. In fact, even by 1995 CRA covered lending, while the '95 Regs only covered just over a third of mortgage loans. That's down to about a quarter now so it's just gotten worse that CRA covered lenders in their assessment areas.

Second is the consistency of enforcement is really varied, and in a book I wrote I showed that after Gene Ludwig's tender at OCC, there was just fewer outstanding ratings. When some of his staff went to the FAC, outstanding ratings shrunk there. There's been a lot of undulation and variation in CRA enforcement over the years especially in the 2000s.

Some specific issues: First kind of tagging along what Ellen Seidman said and what Gene Ludwig said and what Gene Ludwig said a little bit ago, I actually think we need to shift bank holding company CRA evaluations. Everything should go into the pot in one very large exam. It would be much more efficient, these would be interagency exams with maybe the largest depository in the BHC being kind of the lead agency. Everything that the BHC does needs to be in the exam, as Dory Rand said, she stole my only clever line, I don't survey students about what they want on their midterm. Everything goes in that I think should go in. I definitely think the assessment areas need to be based on market penetration as some of the panel has said. Basically any county, any MSA, rural county or MSA that the bank has an appreciable market share in should be in the evaluation; and for small institutions it's also going to be any county or MSA that's a sizeable portion of their own market, and I've got more details in my written testimony on that.

I definitely like the suggestion in the last panel by Ellen Seidman and others about the kind of MSA level and remaining state community needs analyses, and that's a recommendation that Michael Rubinger from LISC made at the Arlington hearing, but I think it needs to be throughout the entire exam and not just on some community development test. There's no reason to not do that on the service test and on the lending test.

My third point is yes we need to improve the qualitative aspects of CRA evaluation but I do not want to go back to pre-Gene Ludwig days of 12 assessment factors and pretty much the banks decide how your evaluation goes. If we move away completely from qualitative analysis that's what we will get. We need to do quantitative analysis, we need to do it smarter and better and it will compliment the qualitative analysis. We need to break out investments by type of investment instead of glomming all together and counting up the dollars. We need to count the dollars in equity investments versus the dollars in MBS investments if those should be counted at all. A better approach is to rationalize improve the qualitative measures; not to get rid of it. There is always going to be kind of a reliability accuracy tradeoff, validity tradeoff but we've got to use both.

Finally, and I think I respectfully disagree with Vice Chairman Gruenberg. I don't think the hardest part is figuring out the assessment areas. I think the hardest part of improving CRA is figuring out what's good product and what's bad product. And this goes back to Deputy Director Barnes comment and Director Seidman's response--it's got to fall to the regulators. The regulators have got to use these community needs assessments but they've also got to figure out ways like they have done in fair lending exams, of what's bad products. And maybe it's not bad; maybe it's less good, but if you've got one lender making good loans, let's call them qualified mortgages to follow Dodd Frank in low mod areas, and another lender making non-qualified, they shouldn't get the same credit.

Elizabeth Duke:
Okay thank you. Mr. Mantle?

Mike Mantle:
Thank you. Good morning my name is Mike Mantle. I'm honored to say I'm a Senior Advisor with Morgan Stanley Bank representing Morgan Stanley's U.S. Banks and managing our Community Development Transaction Team. My involvement in the community development industry dates back to 1989 when I was founding President & CEO of Bank of America Community Development Bank. Over the past 20 years I've had the privilege of being associated with this dynamic challenging and constantly evolving industry as a banker, a Trade Association Committee chair, a board member with several leading national non-profit organizations, and for two years a few years ago as a Chief Operating Officer of a leading national non-profit organization.

I applaud the leadership of the regulatory agencies for holding these series of hearings, and I look forward to the positive and constructive dialogue I'm sure will continue in the months to come. Having been involved in this industry for the past 20 years I can attest to the positive impact CRA has made over the years. It has served well and led us to what my fellow panelist Gene Ludwig used to refer to as the democratization of credit in this country. The billions of dollars of investments and loans that flow today into the development of affordable housing provides funds for economic development from microfinance to the expansion of factories, and the emergency of community development financial institutions are examples of outcomes spurred in part by CRA. I have seen firsthand how communities ranging from New York City to Fillmore, California, benefitted from the unique public-private nature of many of the programs that have been developed over the past year by community development practitioners in collaboration with financial institutions.

The emergency of community development finance is an industry that provided challenge and rewarding career opportunities to thousands of bankers and community-based lenders. It is easy to lose sight of the amazing variety of financing solutions that have been mutually developed by bankers and community practitioners over the past 20 years, and the leveraging of increasingly scarce public sector resources that has occurred.

I joined Morgan Stanley in 2009 after becoming familiar with their deep and longstanding commitment to community development. Morgan Stanley Bank is a longstanding commitment community development bank which I'm proud to say just resulted in our third consecutive outstanding CRA rating. The idea of doing well by doing good has been core to the culture of the organization for many years. One of the first exercises we undertook after I arrived at Morgan Stanley last fall was to convene a series of meetings with national leaders and regional community development practitioners. We engaged a non-profit facilitator to run these meetings and get a candid and current assessment of what was critically needed in the community development industry at this point and time in the way that Morgan Stanley could help address the needs.

The responses that we heard in these meetings had a number of consistent themes. One response we heard time and time again was to act like an investment and not to try and replicate what retail banks might be doing. The idea of Main Street accessing Wall Street for critically needed sustainable levels of capital for community development was heard loud and clear. Being able to deliver funding for community development from capital markets versus strictly using our balance sheet and some of the impediments that may bring was of critical importance for small business as well as affordable housing participants and the panels.

Another issue of concern that was raised in these issues in these meetings was to look at markets that were experiencing tremendous difficulty in accessing community development capital at almost any price. Participants highlighted geographic areas that were not served by some of the large national banks such as the Midwest, rural America, etc. that were experiencing significant difficulties, particularly in the area of affordable housing after Fannie Mae and Freddie Mac were no longer in a position to provide critically needed financing and equity. We were asked in these meetings to explore and pursue ways to create financing vehicles and instruments that would allow socially motivated investors an opportunity to participate by creating soundly structured offerings.

Another area of importance that was voiced by the participants was to see a product suite that would leverage multiple layers of public sector support and development products; the sentiment being that these multiple participants by other sources provide an increased quality of resident services.

Finally, it was stated by participants that we needed to become familiar with the newly created set of emerging tools being developed by the public sector arena notably around the stimulus bill. Numerous programs are coming online are designed to spur job growth and expand the development of affordable housing. Many of these were well-suited for investment banks.

We welcome the input from our community partners and we've been working to develop a program and products that are highly responsive in today's economic environment. The opportunity to continue to move forward in community development by developing links between Main Street and Wall Street is one being embraced by Morgan Stanley Bank. It is one that will challenge us to utilize the intellectual and financial capacities of a wide variety of Morgan Stanley Bank affiliates if we are to be successful in this endeavor. We look forward to being an active participant as these discussions move forward. Thank you.

Elizabeth Duke:
Thank you very much and I know all of you have more valuable input that you have that you can provide in five minutes, and so I encourage all of you to please file your extended remarks and we will include that in the record as well.

At this point, Vice Chairman Gruenberg begin the questioning and let's, as we did before, look at about 10 minutes for the questions and the answers.

Martin Gruenberg:

Thank you Governor Duke. Let me mention that the outset and then have may "referenced it" that the last comprehensive review of CRA was done 15 years ago and that review was led by then controller of the currency, Ludwig, and I really wanted to acknowledge that 'cause the current framework of the CRA regulation utilizing lending services and investment test is still in operation today. And I think fundamentally that framework is not being questioned, I mean, look at the investment test and the community development test. But I think that basic framework has really held up over time and is a tribute to the work that was done then and I think what we're looking at now to a certain extent is making that framework better fit the evolution of the financial service as market over the past 15 years. So I just wanted to acknowledge Mr. Ludwig's contribution and also ask him since he got cutoff in the middle of his third point, I really would like to hear the third, fourth and fifth points he was going to make.

[Laughter]

Elizabeth Duke:
You knew there was more.

Eugene Ludwig:
Well, I can't tell you how honored I am Chairman Gruenberg to be here. What you are doing I think and Governor Duke and the rest of the moderators are incredibly responsible after 15 years. However, one--hard one tries it's time to make changes to meet the needs of modern society.

The fourth point was that in the current state of the economy we should strongly encourage institutions to make loans that create permanent jobs and LMI Census Tracts. The CRA is interesting in the sense that it actually emphasizes loans to small businesses and farms. But there has been a historic tendency in American community development thought to emphasize home mortgage lending, which is certainly a fine thing. I think there are opportunities here actually and we've seen those opportunities advance by microcredit lenders all over the world to take the tools of credit and advance it strongly in the area of lending to small businesses. In that regard, I might say that I'm a big believer that giving the broadest birth to creative and genuinely civic minded investments and loans should be considered. For example, in many cases, schools, innovative schools make a huge difference in communities, and there has been I think in recent day some questioning as to whether or not they ought to be given credit. My own instinct frankly is to give them credit where they're clearly serving the needs of the local community.

Number five, we should consider granting CRA credit to lenders that establish effective loan programs for converting existing predatory loans to home owners living in LMI Census Tracts. We might try to incent I think. It'll be short term, for sure, in terms of its major impact but right now these foreclosures on a human scale are--the numbers are staggering as you know, and we're really not succeeding. It's very hard to succeed. I understand that and I've lived with moderate income borrowers who are friends of mine whose house are well underwater and they're struggling and they're gonna have to give up their houses, and the human impact is tremendous. So we can give extra credit, extra incentive here at this time, I think that would be advantageous. Number six, an expansion of the concept of CRA more squarely to include financial services broadly, not just credit would help LMI individuals and geographies greatly. For example, we're appropriate in emphasis on making savings products more broadly available and investments.

The CRA is a little bit hamstrung because it focuses so heavily on lending. That's the nature of the law, and it's a tremendous law as it is, but the more that we can expand that concept I think the better off we are.

Finally, we need to alter our national conversation about credit, placing renewed emphasis on jobs and small businesses as I referred to before and we should study and learn from the successful practices internationally. The US has been best at this but there are successful practices that are emerging from institutions like BRAC in Bangladesh, Grameen and institutions Triodos all over the world. Thank you.

Martin Gruenberg:
Thank you and I wanted to follow up on the geographic issues that were discussed by the first panel. It seems to me there were two sets of issues raised in regard to geography, one relating to the community development test, the notion of giving credit to institutions outside of their assessment area for targeting investment activity or community development activity to areas of particular need. So it's in a sense a set of incentives for lending outside of an assessment area under the community development test would be given credit in addition to the lending or activity within the assessment area. So there is sort of an incentive issue for targeting investment or community development on areas of need outside of an institution's assessment area.

The other geographic issue and the broader one in a sense is the issue of an institute capturing more of an institution's lending activity that may occur outside of its current assessment area. And I think it's fair to say that there are--particularly for larger institutions, there is a large volume of the current credit activity that's taking place unrelated to the location of their branch network. And currently CRA is really focused on allocation of the branch network for capturing lending activity.

And so the second geographic issue is, are there creative ways, workable ways, to capture more of the lending activity the institution is engaging in that may occur outside of the range of its branched network? That's currently the focus of CRA. And I wanted to get the panel's reaction to those two geographic issues. And I do think the affiliate issue plays into this as well so, if I could just go down.

Mike Mantle:
Thank you again, Chairman Gruenberg. I think we've got the balance wrong now between development and lending and just because the world has changed it's a very different world. We've got so many national organizations and I think a quintessential example also with regard to the lending test and how broadly we ought to think about it is say a credit card company, a credit company that may be housed in Utah or Delaware focusing a disproportionate amount of their CRA credit on those geographies makes no sense, they're national credit providers.

I think we would be better off focusing on what kind of loan they make and whether those loans serve low and moderate income interest in whatever geography the loan is made. But the nice thing about the CRA and the focus on the development test and I think we ought to focus on lending test this way more is on innovative, individual concepts, ideas that are not cookie cut. One of the great things about America and one of the great things about the way the CRA has evolved is it is in lockstep. It's about innovation and individuals commitments and I think we have the more flexibility we can give the better off we are. Thank you.

Eugene Barnes:
I would like to chime in too, Martin. CRA has not kept instep or course with the banking as we know it today. CRA still has milk on its breath and it hasn't been able to match the voracious appetite of the financial institutions. When we consider that a major portion of a lending that was done outside the assessment area contributed to the mortgage crisis then yes, we definitely want to be able to capture that lending and those practices.

The other aspect to that is well, how do you determine what's going to be included in determining whether or not the banks are meeting their legal obligations on the CRA? And possibly we could look at community-led economic development. One of the things that I've been exploring lately is community benefit agreements. This is where all the important stake holders within the community meet with financial institutions, meet with the cities, even assisting and helping with the planning of the Community Development Block Grant applications that should mirror the community benefit agreement. Off time the CDBG applications are no more than cosmetically manufactured documents to solicit a certain amount of dollars from HUD. And in the implementation well, you know, it falls very short.

So I think if we've got--we have community organizations and we have labor unions, urban league and a lot of the other stake holders that are involved in a community trying to help determine what are those unmet needs in the community and how they can be best met and how we can leverage CRA dollars in order to meet those unmet needs. One of the things about the--the difference between a big shot and a little shot is that a big shot is no more than a little shot that kept on shooting. So when I hear small banks really don't have the infrastructure, well, they're probably just part of the larger big banks as of cilia and subciliary and that some point they're gonna become a big bank so they need to be regulated.

Christine Freund:
As far as the assessment area, I think it's still a matter of the institution's own analysis of what makes up their geography in their assessment area. I think it's important that it takes into consideration their primary lending focus, you know, given the weight between mortgage lending and small business lending and where is that institution's primary focus, and where are they best able to meet the needs of the community based on their lending needs. I think if you get away from that, I think you're taking away from CRA and its original intent to service the needs of the community. I know that many institutions and with the advancement and technology and being able to outreach to areas outside of their assessment area, I think you need to be careful from the standpoint of, is that really it could be a service to the community and to low/mod but it also could be a disservice given that some low/mod individuals, you know, don't have access to all of that types of technology.

So I think you have to weigh it from the consumers standpoint and the business standpoint, that there's two different, you know, methods that could be looked up for that.

Dan Immergluck:

Yeah, I think, Vice Chairman, I think the first question's the harder one, at least to me. Community development needs outside the assessment area, I think in the best of all worlds or maybe the second best where the investment test or the community development test was very well implemented, I think it would be fine to do something like that. And in fact, if there were these needs assessments you could actually identify places with particular needs and give just, you know, basically examiners would say yes, there is a need in that community for that kind of investment or there aren't very many banks there.

I think the problem is the way the investment test, and I have done a lot of work on the investment test, is implemented is pretty much everything is counted at its nominal value and Mortgage-Backed Securities were counted and so what it would basically create is an incentive for institutions to rush to the highest return investment outside of their assessment area possibly and give them equal credit to good investments inside their assessment area, which would make no sense.

On the broader question of assessment areas, I actually did think about Deputy Director Barnes' issue about separate assessment areas for different tests. I do think it makes sense and maybe not so much today, maybe it won't matter but for particularly large institutions, I could see that it really would make sense to have a lending assessment area and a service assessment area, especially for net banks and those kinds of things. I don't see why it couldn't be done. I think the technology is there to do it. I think again, the community development or investment test, maybe you'd do that as, if it's in either one, you can count it, meaning the community development or the investment test becomes the overlap of the two. I mean the universe of the two.

I think the real problem is on the service test. I think, fundamentally, we have an almost meaningless service test today because we don't have the positive data. To me, until we have the positive data, the agencies are not at able to implement the service tests adequately.

Eugene Ludwig:
We still have time?

[Laughter]

Elizabeth Duke:
You can go on and answer those questions one by one.

Eugene Ludwig:
Just two quick facts from the practitioner's side in community development. I think Ms. Hughes from Chase was hitting a great comment when investments and loans are made with CDFIs or syndicators that are responsible back to the community, such as an enterprise in Great Lakes and National Equity Fund that too much time was spent on this geography issue. If you can invest in a multi-investor fund, a lot of these institutions that are accountable to community determine where those dollars flow, where the best leveraging can occur, where the highest needs may be at any time, I think you're gonna give a lot of flexibility. You're gonna allow for a little bit of a breakdown of some of the geographic issues we see today. It's not uncommon that I'll talk to developers in rural California that may have a project in one county they've got three bids on and

30 miles away and in other county, they have no bids. And because one geography is full of--as somebody have filled their CRA application, they're kind of balancing where they go.

And it leads me to my second comment. I think we need to pay a lot of attention to public sector initiative. It's very difficult for some smaller banks to do transactions absent to public sector's participation. The public sector determines where they're gonna allocate Low Income Housing Tax Credits. They determine where Bond Cap allocations are going geographically. You can't manufacture something from nothing and I think we need to pay attention to how many opportunities are available and how those are being leveraged. But the public sector allocation often determines geographic performance as well.

Elizabeth Duke:
Okay.

Barry Wides:
Thanks everyone for your testimony, very insightful. I had a question for Ms. Freund. I was intrigued by your concept that we--for more emphasis on the qualitative aspects, certain types of activities from which the bank has engaged.

Could you give me an example or two of the type of investment activity that you felt didn't get the proper consideration from a qualitative perspective and do you have any thoughts on more consistent way that the regulators could include the qualitative factors in our evaluations?

Christine Freund:
Oh, I wish I could easily answer that. I don't have, from personal experience, I don't think we had any that--any investments or lending that didn't get consideration. I think our examiners did an excellent job with our exam. But I brought the point up because I feel that quality of an investment or a loan needs to be considered. I mean it's kind of a two-edge sword when I said that there's no clear criteria when I mentioned about community, that the community development portion of the test that it's difficult to know how much or what types of community development we should be involved with, but then on the other hand to say that, you know, not just quantity but quality is relevant 'cause quantity obviously is easy to measure where the quality isn't as clear cut. So, it's hard to have clear criteria exactly. But I think that, you know, with across the agencies if they all, you know, always take that into consideration when they're looking at the community development test.

Barry Wides:
Okay. Thank you. Question for Mr. Immergluck. You had talked about doing inter-agency community development needs analysis, and I was wondering if you could give me some examples of some types of quantitative measures that you would see going into these analyses?

Dan Immergluck:
An example might be if such an analysis were done on the lending test in the mortgage market in the late 1990s, there would have possibly been an explicit consensus in certain regions that foreclosures were going up, they were highly associated with high-cost loans, and so we should be looking at what, you know, basically what kinds of loans different lenders are delivering.

And we should look at the disparities between the high-cost loans and the low-cost loans within the institution within its affiliates. So that's an example of something I think could be done.

Barry Wides:
Okay. Question for Reverend Barnes. You had made the point that certain types of commercial lending activities particularly you've pointed out lending to payday lenders by banks be considered in a bank CRA evaluation is a negative. And I was wondering if you could give me some criteria, some idea of the type of criteria that you would suggest the regulators use in evaluating the types of commercial lending that might be excluded for the types of reasons that you went into with regard to the payday loans.

Eugene Barnes:
I'll be short and quick on that. What is a predatory loan? A predatory loan is any loan that becomes abusive. Any type of lending that is abusive becomes predatory, and we need to examine the nature of those loans plus the quality of them as they're coming out to the community before they get out here. And I think that falls back on use of regulators to be able to determine that.

Barry Wides:
Okay. Thank you.

Thomas Barnes:
All set?

Male Voice:
Um-hmm.

Thomas Barnes:
Let me explore that quality thing just a little bit further here for the panel, with the panel. As the agencies evaluate CRA performance, how, according to you, should we take in the consideration whether an institution is making loans that are not only affordable but sustainable? And then drilling down a little bit on that, should the legal but higher cost loans that have those features work in an adverse way toward CRA, again if they're not sustainable if you end up in the foreclosure, and then how would we--how would we say that, how should we look at that?

Eugene Barnes:
When we look at the data again and we look at the high-cost loans, when we look at the ones that were made in CRA, I think there was probably 20 percent of those loans were high-cost loans. What was not captured with the loans, the high-cost loans that were made outside of CRA that affected middle class and, you know, the upper echelon of community were like 56 percent. And so we definitely need to take in consideration what the high cost loans are, the nature of them, how they're affecting our communities.

Dan Immergluck:
I'd like to take off on what Reverend Barnes said because I think there is an opportunity for a win-win here but get into a really tricky territory. Our communities need jobs to prosper. And I

think what we're going to have to think through over the next decade is a more holistic view of what community development means.

Community development has historically meant service to underserved communities, and in particular, it's had a discriminatory focus, that is people have been discriminated against will. And as we go forward, those are certainly issues that we should not let up on or forget. But if we don't tilt a little bit in terms of direction of whether or not these loans are actually going to derive a genuine development within these low and moderate income areas as distinct from simply mandating problems, they were going to see continued deterioration in these communities.

Now, how one does that, what kind of credit one gives for innovation or the introduction of new businesses within these communities is a tricky business. But I think there's a win-win here because there's an opportunity to interject something that is noble on the one hand and encourages business on the other may indeed benefit the higher income individuals in some cases but actually drives well-being for low and moderate income people in these communities. I think there is an opportunity here and a need that didn't exist 15 years ago.

Mike Mantle:
Can I just make one quick? I do think this is the hardest to your question about quality and how would examiners do this is to me is having kinda see examiners be frustrated with this in discussions with them and just my own analysis of, you know, do you go too far and do you discourage responsible lending. Those are real questions. And it's not, you know, anybody who's been, was through the predatory lending kind of state debates 10-15 years ago knows that getting to consensus on what's a good loan is not an easy thing. But I do think there are things to do.

I think you can look at, you know, kinda call out the high cost loans and look at just the patterns of non-high cost loans. Or if we end up with the definition of kind of conforming mortgage in Dodd-Frank that we looked at just those and we call out the others and we look at market shares within that market only. I think there are ways to do kind of sampling as is done in fair lending exams and look at loans in low/mod areas versus upper income areas and see what the differences in the terms are.

I also think loan performance has to be part of those as well as kind of compliance in any kind of fair lending or compliance violations need to send up flags. But I think, you know, if you're talking about the lending in low/mod areas having which was, you know, even in the 90s, ten times the default rates as the overall portfolio, that's a problem. And but if it's, I also don't want to discourage lending that has--I mean I remember when I was at Woodstock, we issued a study when I first got there in the '90s saying that affordable housing lending had 10 percent higher delinquency rates than conventional lending. And the lenders were--the industry was like, see, that's terrible. Yet a few years later, we were talking about subprime loans with 10 and 15 times the delinquency rates. So, given where credit markets are now, I don't want to discourage low/mod lending. And I particularly think credits should be given for things like FHA lending maybe extra credit because I'm real concerned about a bifurcated marker between FHA and conforming lending and that's going back to the days where the only loan available especially as

FHA gets more expensive-- The only loan available in certain communities is being an HFA loan.

Eugene Ludwig:
I can give you maybe as we're having a lot of talk I think on the single family side that the home purchase side. You know, I wanna talk a little bit maybe about the multi-family side and some of the, you know, what's--quantity versus quality. One of the more deeply respected voices in the affordable housing space is Joe Hagan, and Joe uses a term called "lasagna deals." The more layers of lasagna, the more layers of financing, the better quality the outcome is going to be. And oftentimes if you're involved financing or placing equity into a project that may have a target audience of disabled veterans, of a homeless population, et cetera, it's gonna require very deep levels of subsidy to make these projects work and be financially viable overtime. Unfortunately, that--but almost in a juxtaposed position to CRA because it leads to a smaller loan. So the complexity of the transaction and the skills needed for the underwriter go up. The revenue stream decreases with the smaller loan. The CRA benefit to the crews, to the participating institution, goes down, and it didn't work.

So maybe some consideration should be given to the overall project size being developed because of the financial institution's participation. How much other money was triggered and leveraged into a community. But I think from a complexity standpoint even with how many partners are or at least from the multi-family and even on the economic development side, how many partners are in the equation, how many layers of lasagna, what is the target audience. It's pretty simple to get projects that are at the very high end of the allowable income levels involve few levels of subsidy. Those are slam dunks. Those are fairly easy. But when you start adding degrees of complexity, it drives up risk and it drives up cost. So, thank you.

Elizabeth Duke:
Thank you. We're actually running pretty well. First of all, Reverend Barnes, I wanna thank you for pointing out that we are in the birthplace of CRA for this hearing and recognizing Gail Cicotta. And as you were making your comments and talking about the institutions that have received outstanding ratings, it occurred to me that we have come a long way from the standpoint of it's no longer what do I have to do but it--and, you know, how do I get out of this obligation, but it's more of, tell me what you want me to do and I will do as much of what you want me to do as I can or as I have to. So to me it's not so much like letting the students choose the questions on their test, but it's telling them what the questions are in advance. And so if we take that that's where we are, we're looking for transparency, one of the things we need to do is define, you know, how much weight does each activity gets or even how much weight do particular activity subtract.

So starting back from where your organization came from and knowing where we are today, where would you place those largest weights in terms of--and would you create a formal system of CRA credit? You know, these are the ways you can get the credit and these are the weights that you get and then each institutions choose on that.

Eugene Barnes:

As you know, National People's Action has been instrumental in forming community agreement to a lot of the financial partners, Fannie Mae, Citigroup, Chase. You know, we've been working continuously with organization--with those organizations trying to hammer out what we believe would be the best way to spend dollars within our communities. Often times, we ran into--you know, into resistance. But I think, you know, community organizing is about building relationships and that's what we've been very good at.

We have taken the adversarial role when necessary. We try to work when--once we ascertain whether or not there's an actual injustice, we try to negotiate it out. And if we don't, then we take direct action. But we've always been willing to sit down with all of community partners to look at possible solutions to the problem that we experience. We're not saying that we have all the solutions. What we're saying is that we can come to the table and try to hammer on some workable solutions that gonna be beneficial to all the stake holders at the table.

But one of the things that we're very much against is contain scene, predatory practices allow to go one due to deregulations, due to Wall Street apathy, the complicity of the rating companies being unable to sample the loans that are in the pool, the outdated Pooling and Service Agreements that often times hamper servers and lenders from doing a better job with the threat, the sort of Dan Maclise hanging over their head. If you make a bad decision, we're gonna penalize you dollar-wise. So I think it's gonna take a cooperation of everybody that's involved to be able to try to determine what's gonna be the best method. Alright, we've been on the ground and we've been for--especially, we've been vociferous in the last decades. And talking with you and everybody else as in terms of what we've been seeing happening on the ground. We can come to you and we can tell you the concerns that we have. And then it's up to you to start looking at the various stake holder and see who's gonna be responsible in helping us meet the guidelines. CRA was designed to encourage responsible and safe and sound lending and its practices. And that's, I think, what our main goal is that we just ensure that that continues to happen.

Elizabeth Duke:
Okay. Thank you. And then Mr. Ludwig, it seems you were back since we have both the birth ways of CRA and the father of CRA revisions that we had before.

So if you approach in the problem again. And let's assume we had received some sort of agreement over the weights and how the need should be met, what needs there were, and how we should weight those needs. How would you weight the obligations particularly taken to account moving away from purely the deposits and the depository and how would you--you balance off the obligations of the non-bank affiliates and ignore for just a moment the legal hurdles that we would face?

Eugene Ludwig:
Well, thank you, Governor Duke, and thank you for those nice words. I am--I think your focus and those of Chairman Gruenberg very much along the same lines, it seems to me, and this is a tough one because on the one hand, one thing we worried about--but what [inaudible] sort of think hard on is credit allocation. So that if the more you use numbers and the more you use sort of rigorous boxes, the more you get into that. And we decided after an initial pass that was more

numbers-oriented that it would probably be more of a disservice to be more numerically driven than a service. But it ought to be looked at carefully. If I--'Cause I do think that sometimes things are under-measured and over-measured, I would try to figure out how one can give more credit for innovation. I don't think we did that well enough. I think that I would try to press more in the direction of other kinds of financial products getting credit and not just deposits. I'd take a very broad view of service. So how do you do the other holding company affiliates? In many cases, it's advisory, it's investment, it's retirement, all of the various financial tools that can benefit upper income people, can then benefit lower income people if they're applied vigorously and--but somewhat differently. I'd gave--I try to tell it a little bit more towards business 'cause I think that jobs are needs. I think tilt a little bit more towards investment innovation. I'd just try to spread it away from credit being a lockstep and I'd look hard at them trying to encourage people to think more creatively in those other boxes without getting too numerical.

Elizabeth Duke:
Thank you:

Eugene Ludwig:
Thank you.

Elizabeth Duke:
Mr. Mantle, Morgan Stanley has fairly small bank and a fairly large holding company, so how do you assess the obligations both legal and otherwise in your organization to meet the spirit of CRA?

Mike Mantle:
You know, I'm the--I'm not on the policy or the program or the compliant side. I'm more on the practitioner's in the community development team. So I've got to couch my response in a little bit different way. I bet when I came onboard, one of the things we wanted to do is kinda--as I mentioned get this needs assessment, this blueprint of where the highest and most critical needs were from the perspective of what could an investment bank bring at the table. I think that's why we convene the groups, that we brought and we're starting to develop the products we've had. I think the--we've had the geographic focus in one market that we've--that dominated by a large number of banks providing services in a very small area and the challenges that presents.

But we've been able to branch out. Somewhat we've filled the gap, so to speak. The geographic gap, I think, when some of the GSE investment went away, I think it was recognized during the exam that some of the geographic markets we've stepped into to do some equity investments were those that had been left behind. But in terms of--from a practitioner standpoint, what I'm trying to do now is fulfill and find ways to deliver what was identified in those blue print meetings, which again was some of the markets, the geographic markets, the Midwest, the upper Midwest, and the rural markets that maybe needed a little more attention and access to capital and also what products and what techniques can be brought to bear that would use the intellectual capital of an investment bank to drive more resources into mainstream.

Elizabeth Dukes:

Thank you. And let me give you the same opportunity I gave the last panel, which is to--in a minute or so, leave us with what you think is the most important thought that you would like to leave from this hearing.

[Simultaneous Talking]

You start Mr.--Reverend

Eugene Ludwig:
Governor Duke, I would be as--I'm honored that you'd said nice words about our reform. But I think you ought to be as broad, aggressive, and forward-thinking as possibly can be. Just a thing here about the enormous shadow banking system and the amount of money and innovation that these dynamic companies could bring to low and moderate income areas, if their skills in terms of investment venture--capital venture investment could be brought into these communities in a vigorous way. So it seems to me it is a very different day from a financial perspective than it was 15 years ago. And this is a tough thing and you're all to be commended from the various agencies for taking this on 'cause it can--one thing, you can't satisfy everybody. But it's a really tremendous opportunity to sort of broaden this out and make a great change in these communities for good.

Elizabeth Dukes:
Thank you. Reverend?

Eugene Barnes:
First of all I just like to thank you for inviting us, NPA, as representative of the many voices who have coming out the shadows to express their concerns that is enough is enough. Many great strides have been made and we congratulate you on this, just this meeting here. And I think what I'm hearing is that everybody has agreed that it has to be an upgrade to CRA.

Elizabeth Duke:
Ms. Freund.

Christine Freund:
I think CRA has made great strides over the years from where it began, from the regulation standpoint as far as from the bank standpoint, and what's required of the banks. But I do also think that it is appropriate that is reviewed at this time. And hopefully out of these hearings, you know, it will continue to make strides going forward and taking consideration all of the, you know, various ranges of size of banks and types of banks in the economy these days. Thank you.

Elizabeth Duke:
Okay.

Dan Immergluck:
I just wanna thank everyone for inviting me and giving me this time to make some comments. I wanna echo Gene Ludwig's comments about ambition. I remember a number of things that were said in comments during the '95 rewrite that said, "You can't do this," but they were done and

there were no lawsuits or at least there weren't any successful lawsuits and things happened. So I think that's an important thing. And the second thing is I wanna thank you all also for something that hasn't been mentioned, which is an encouragement to continue pointing out using the bully pulpit to point out that CRA was not a cause of the subprime crisis. I mean this audience knows it but I can do all the research I want demonstrating that but it's not getting out there and folks like you can get it out there more, needs to keep happening.

Elizabeth Duke:
Thank you. We say this often as we can.

[Laugher]

Mike Mantle:
I think the one thing I'd like to--the parting thought I'd like to leave is understand the tremendous pressure that's occurring financial at the state and local levels on their resources. I'm from California, you read about our issues. But funding levels for community development are being stressed. And I think giving credit or credit may be due for creativity, innovation, new solutions that leverage these scarce public sector resources in ways they may not have been leveraged before in order to address the needs of our communities. Consideration, style points for the work that goes on there that we may need to rethink many of the ways that the public sector's participated before so that their dollars can further, and I hope that as we do that that there's respect and consideration given to the industry for that. My final comment, 21 years ago, I came to Chicago. One, I wanna thank NPA and Reverend Barnes and Gail Cincotta. Thank God, you guys created a great industry and I've had a rewarding and challenging 21 years.

Eugene Barnes:
Thank you sir.

Mike Mantle:
And [laughter] on behalf of thousands of bankers [applause] and community groups, there's a whole lot of bright people doing some fun things now. And I thank and I think we're having great dialogue is Mark Pinsky mentioned. I sat in some pretty contentious meetings, but boy, it's come a long way. And I also in closing, I'd like to thank the person who helped 21 years ago. When I came to Chicago, I saw Ross--Ron Grzywinski stick his head in the room and thank you Ron if you're still here 'cause you spent a few moments with that were very valuable and leading to what I've become in the business and I wanna thank him personally since he was here. So with that, thank you.

Elizabeth Duke:
Well, and thank you to all of the panelists. This has been a terrific morning, I think in both panels and you've done a super job and appreciate all the thoughtfulness that you've brought to this topic. It will be helpful to us as we tackle what is it immediately and incredibly difficult and complex job. So if I could ask the people here to help me thank the participants on the panel.

[Applause]

Elizabeth Duke:
And then I'll turn it over to Alicia so she can tell us what our instructions are for lunch.

Alicia Williams:
Okay, so we are breaking for lunch, and we're going to reconvene in this room at 1:30. I ask that panel three be up here at the table at 1:25. We have a boxed lunch for you right outside the door, and you can bring it back and eat inside this room. For those of you who came later today, the restrooms are down the hall.

[Break]

Alicia Williams:
Good afternoon. Thank you everyone, and I'm going to go ahead and get started with going through the same things I went through this morning. So cell phones, if you could please put them on mute or turn them off, and if you're sitting in front of a mic, if you could please put your cell phones under the table or on the floor so that it won't interfere with the system there. Also for the panelists, we'll go over the rules again. We have Jennifer there; she's our time keeper, so keep an eye on her. We have a little device there with the little lights. When you start off, it will be green and you'll have fine minutes. When you have two minutes, it will turn yellow, and then when you have one minute left, Jennifer will hold up a sign saying that you have one minute left. And then once it turns red, you're time is up.

So I'm going to turn it back over to Gov. Duke.

Elizabeth Duke:
Well, thank you and welcome back everybody and thanks very much to the Federal Reserve Bank of Chicago for providing lunch and a fine lunch it was, and so we do appreciate that. The first two panels were terrific, and I'm told that the third panel is the crowning glory so I'm looking forward to this one.

Um, you know one of the things when you're only planning four hearings one of the toughest things is trying to determine where will we have those four hearings and so I'm pleased that a number of the members of this panel have travelled here from other places in order to also share their knowledge and thoughts about CRA.

So with that we'll get started on panel three starting with Frank Ford, who is Senior Vice President Research and Development of Neighborhood Progress, Inc., Vickie Tassan, Community Reinvestment Act Executive at Allied Bank, Lou Tisler, Executive Director Neighborhood Housing Services of greater Cleveland, Warren McLean, Vice President of Development the Community Reinvestment fund, Lez Trujillo, National Field Director Affordable Housing Centers of America, and Ignatius MacLellan, Vice President External Affairs, Northern New England Housing Investment Fund.

So we have at a minimum Cleveland and New England represented here and with that um, Mr. Ford you may begin.

Frank Ford:
Thank you. In 1977 Congress passed CRA to address urban decline and disinvestment brought about by the lending practices of banks and other depository institutions. Today, 33 years after the passage of CRA, banks regulated by CRA are still causing significant damage and disinvestment. The policies and practices employed by banks have changed and the law and its regulations must change to meet the changing times.

When CRA was first passed, the role of banks, the focus was on the role as a lender. Today the focus needs to be broadened to include two additional roles, first, purchasing and holding mortgages for securitized loan pools, second, acting as a mortgage servicer for other financial institutions who have purchased loans. Whether in their role of holding title to a mortgage or in their role as a servicer for mortgages, banks are engaged in four activities that were not envisioned by CRA but which contribute significantly to community decline and deterioration.

First, in their role as servicers, banks are the chief decision makers determining whether a home will remain occupied or become abandoned. It's not uncommon to see a servicer refuse to write off $20,000 in principle that would have made a $100,000 loan viable and would have enabled the home to remain occupied. Yet after the home is abandoned the servicer finds they can always sell the house for $10,000. This kind of unsound business judgment damages the investors backing the mortgage, the homeowner who was forced out and the neighbors who live near the foreclosed home.

Second, banks are owning and holding property in violation of criminal housing codes and are now amongst the worst slum land lords in Cleveland, Ohio. Whether in their role as owner, trustee, servicer, the blatant and criminal violations of housing codes by banks is a slap in the face to homeowners complying with these codes.

Third, as for closing, banks have finally woke up to the realization that they could be held responsible for abandoned homes. One of their responses has been to dump these properties to out of state flippers and speculators. When banks dump these blighted homes, it's equivalent to putting defective and unsafe consumer products out in the stream of commerce.

Fourth, the most recent and troubling response of foreclosing lenders is to abandon the foreclosure process prior to taking title. This practice, commonly referred to as a bank walk away, leaves title in the name of the borrower who no longer lives in the house. The present system of CRA examination rating does not adequately take into consideration bank activity, which is harming communities.

I have four specific recommendations. First, mortgage servicing is not captured in any publicly accessible database and is essentially off the radar. Banks should be required to disclose the addresses of REO property they service. When a bank is examined the exam should include review of its role as a servicer. Second, complying with criminal housing codes, there should be a bold and unequivocal statement from regulatory agencies that failure to comply with local housing codes is a criminal activity, which causes community disinvestment. CRA exams should include a review of the condition of foreclosed property. Examiners should contact local housing officials to invite their comment during the examination. Third, promoting responsible disposition of property, regulatory agencies should issue an REO code of conduct as a guide for regulated institutions and my materials include a sample. Examination of banks should include a review of the sales of REO property. Regulatory agencies should also reward financial institutions that adopt programs that divert low-value distressed property to beneficial owners like local land banks and municipalities, as pioneered by Fannie Mae and HUD with recent agreements they have with our new county land bank in Cleveland, taking responsibility for the condition of mortgage collateral. A lender contemplating filing a foreclosure action should be confronted with this question: If we proceed and our actions cause this home to be abandoned, are there any adverse consequences to us? Right now there are virtually none. Foreclosing lenders should be required by law to be responsible for the condition of the property if it becomes vacant at any time during the foreclosure process. At minimum your examination should hold banks accountable for the actions they take that contribute to property decline and disinvestment.

In closing I'll like to again thank you for the opportunity to testify. I would like to suggest that if it's possible, you consider convening a similar hearing in Cleveland. Cleveland was very hard hit by the foreclosure crisis and hit earlier than many other cities. For this reason Cleveland has actually had time to develop some very creative approaches. A hearing based in Cleveland could afford you an opportunity to hear from others. Thank you very much.

Elizabeth Duke:
Thank you.

Vicki Tassan:
By my count, I have 25 seconds left over from Frank

[Laughter]

Vicki Tassan:
I'm taking it, okay? Good afternoon. I want to thank the members of the FFIEC for convening the series of hearings, and a special thank you to the Federal Reserve of Chicago for being such an outstanding host. As you've already heard, I'm Vicky Tassan with Ally Bank. And I wanted to tell you that, first of all, I'm going to be speaking from more than 25 years of experience in community development and CRA, which would somehow make me older than Mike Mantle, but I'm not.

[Laughter]

Vicki Tassan:
So I just started a lot earlier than Mike. And I've worked for local, regional, and national institutions, and now I'm working for an Internet bank. I also want to take this opportunity to thank the regulators for all the work they've already done on CRA and for all the hard work they do during the exam process; because, unless you've seen it first hand, you have no idea of how much work is involved from actually both sides: the bank and the examiners. That's why I took Frank's 25 seconds. All right.

So Ally Bank is headquartered in Midvale, Utah and is chartered in the state of Utah. And, in that state, we have 51 institutions that are covered by CRA. In 2009, we relaunched our online bank with a new brand, Ally Bank and a consumer promise for high service and low hassle banking that is resonating with our customers. We have more than 470,000 customers and deposits coming from all 50 states. We provide competitive interest rates for deposit products with live, 24-7 customer service. And, in 2010, we launched a low cost checking account with no minimum balance; unlimited check writing; no monthly maintenance fee; free online bill pay; and you can use an ATM anywhere in the country with no fee. Our primary lines of business include retail and wholesale auto financing and home mortgage products. And, as of June 20, our deposits were $41.9 billion and bank assets of a little over $61 billion. So today I'm going to focus on two issues. Of course, the written testimony will be more detailed, as I think everyone's is. I'm going to focus on geographic coverage and access to banking services.

The Community Reinvestment Act, as we all know, is about 33 years old. Some modest enhancements to administering the act took place primarily through the regulatory and Q and A processes, but there remains room for improvement. Today, CRA is in the culture of financial institutions, and is responsible for the revitalization and creation of millions of units of affordable housing; for the support and the establishment of small business; and the creation of jobs through economic development opportunities all over the country. When I was first assigned to CRA in 1986, two things come to mind. First of all, the exam process was pretty unsophisticated; and, second of all, we had no computers. Now, I want you to think about that for a moment. All right. So if typewriters were the most advanced piece of office equipment you had, you had many problems to deal with. And so one day my manager came back from visiting Fannie Mae and he said, "I think we need to get some of those computer things." And, sure enough, a couple weeks later appeared on my desk this gigantic monitor with a green screen and a green flashing cursor. The monitor was so heavy, I don't really think I could lift it. But what a huge improvement. Technology had arrived on the banking forefront.

So with the first issue of geographic coverage, here are my thoughts. Ally Bank has no brick and mortar banking centers, but we are strongly committed to CRA or I wouldn't be where I am today. Ally Bank takes deposits from all over the country. But we have only one office by definition under CRA, in Midvale, Utah. CRA needs to reflect the many new way a customer can do business with a financial institution: by telephone, by mobile phone, and via the Internet. The lack of a brick and mortar branch does not eliminate, nor decrease, the CRA responsibilities of the less traditional banks.

At the same time, the bank regulators must consider how less traditional financial institutions can serve the low and moderate income populations and neighborhoods. It's important to maintain the focus of CRA on the LMI borrowers and neighborhoods in local markets where the financial institution does have a presence. So I'm saying, if you have a physical presence, you have that responsibility for those assessment areas.

But, in the case of Ally Bank and similar institutions, is that really enough? We have other corporate centers with large concentrations of employees and substantial CRA opportunities. So, to that end, we are working very hard with our primary regulator, the FDIC, to produce a strategic plan that will help us look at expanding our assessment areas. And, with regard to leveraging new technologies, it's easy to assume that the low and moderate income population does not have access to technology. There's been a number of studies around digital divide issues. And I know you can all, you know, use that famous thing of Google -- Jennifer, we've already negotiated more time. I'm sorry. But there is some recent research under that topic, and it came from the Pew Research Council -- Center. I'm sorry -- in July and it said that, in a recent survey of nearly 2,500 adults, the low income segment is the fastest adopter of mobile Web devices. The survey found that 46 percent of households earning less than $30,000 a year are wireless Internet users. Now, of course, Jennifer has now shot down any of my comments about access to banking services, but I'm sure our fabulous moderating panel will pursue that later. So thank you. And, again, thank you all for convening these hearings. I look forward to your questions.

Lou Tisler:
I also would like to thank the panel for convening this meeting, but especially Governor Duke who personally toured the good, the bad, and the ugly of the housing crisis in Cleveland. Today I'm representing two organizations: The national NeighborWorks association, which is a national trade association of NeighborWorks organizations, nonprofits chartered by NeighborWorks America that create affordable housing in America's urban, rural, and suburban communities. Our membership includes over 170 nonprofit organizations in 50 states, Washington, D.C., and Puerto Rico. I am the voluntary board president for that organization. My day job, I am the executive director of Neighborhood Housing Services of Greater Cleveland, providing programs and services for achieving, preserving, and sustaining the American dream of home ownership. And HS of Greater Cleveland has been instrumental in developing, implementing, and evaluating comprehensive housing programs that work to achieve our mission.

We appreciate the Federal Reserve and all the federal banking agencies proactively addressing this issue. Furthermore, we hope the U.S. Congress will find the importance and relevancy to address CRA reform. Specifically, I would like to offer the following recommendations and concerns for a 33-year-old act. Corporations are able to change, adapt, and find opportunity rather quickly. Regulation at times is slightly different. First, assessment areas or geographical areas on the CRA exam must cover the great majority of banks' loans. Currently, only 25 percent of all home purchase loans are made by banks operating in their assessment areas. Research has shown that bank loans outside of assessment areas are more likely to be high cost loans and scrutinized -- and not scrutinized by CRA exams.

Second, currently, banks have the options of including their nondepository affiliates on CRA exams, opting against inclusion of affiliates that are engaged in risky or discriminatory lending. Banks must be required to include all affiliates on CRA exams. Safe and sound should not only be in the institutions' best interests but also in the homeowners' best interests.

Third, a large body of research concludes that minorities received proportionally higher and riskier lending products based on credit worthiness. So far, CRA has not effectively helped in bringing borrowing opportunities to minority individuals, families, and small businesses. Requiring more robust data as a guidepost, CRA needs to demonstrate the reduction of racial disparities. We also recommend that an additional rating be implemented to evaluate what a

CRA institution is doing to reduce these racial disparities. In Cleveland, these numbers have definitely shown that the racial disparities in not only loans but in the foreclosure crisis has followed in terms of minority candidates or minority homeowners and is following the path of urban sprawl.

Fourth, CRA exam ratings must be more descriptive and distinct in their ratings in order to provide for a meaningful interpretation and enforcement of performance. Over the last several years, 99 percent of the banks have passed their CRA exams. CRA passing exams must be more descriptive. We recommend having a score of outstanding be more stringent and more difficult to achieve, as well as incorporating two additional levels of scoring: high satisfactory and low satisfactory. These changes will create a product that is more relevant to the community served as well as to the institution itself. Businesses would not settle to be outstanding compared to 30, 20, or 10 years ago; and neither should we, in terms of CRA ratings. CRA ratings should also not be a rubber stamp in compliance but a meaningful and effective way of meeting the needs of the community.

Fifth, acknowledge the difference between institutions using more qualitative analysis to determine whether or not institutions are making a difference in their communities with greater transparency in all regards. This is never -- this has never made more sense. A post-foreclosure crisis in Cleveland looks very different from a post-foreclosure crisis in South Florida versus a national model. As a result, CRA investment, irrelevant of institutional size, should be doing different things based on the needs of the communities. Current CRA regulations are too siloed to an institution's asset size that needs -- that the needs of the community are neglected and innovative practices are not incentivized. A one-size-fits-all approach, which is easier and requires less work, is not entirely or optimal relevant; but this should also include looking at loss mitigation in terms of foreclosure prevention and how that implements into the CRA meeting of their standards.

Incentives for superior CRA performance such as eligibility to address additional tax credits under new markets or low income tax credits should be considered. We are strongly opposed to providing exceptions from merger review or less frequency CRA exams for banks with outstanding ratings. Exemptions, when tied to current thresholds of accomplishments, exemptions become the rule rather than the exception and are detrimental to CRA's effectiveness.

Seventh, data has increased responsible lending by holding banks publicly accountable. In order to bolster affordable banking lending services, we support enhancements to small business data.

Finally, CRA should not be myopically focused on urban areas versus the suburban, exurbs, or rural areas. I'd like to thank you for the opportunity for my presentation today. On behalf of all low income communities the NeighborWorks network serves, including Ohio and Greater Cleveland.

Elizabeth Duke:
Mr. McLean.

Warren McLean:

Thank you for inviting me to testify on the Community Reinvestment Act regulations. My name is Warren McLean, and I'm Vice President of Development At Community Reinvestment Fund USA, or CRF. CRF is a national nonprofit financial intermediary and a CDFI. And we are the nation's leader in accessing capital, accessing capital markets on behalf of local community development lenders. Over the past 22 years, we have delivered $1.2 billion to low and moderate income communities through our securitization activities and our new markets tax credit facilities. These resources have leveraged an additional $1.1 billion in total project cost.

CRF obtains capital by operating a secondary market for loans and by selling new markets tax credits to investors. CRF pioneered the development of asset-backed community development securities, and we issued the first economic development revenue notes rated by Standard & Poor's and achieved AAA ratings. CRF is also the second largest new markets tax credit allocatee in the country and the largest allocatee specializing in pooled small business loans.

I'm pleased to offer these recommendations to enhance the CRA regulations, a law that has played a major role in stimulating lending in disadvantaged communities and improving people's lives.

First, remove all geographic constraints on loans and investments made to CDFIs. CDFIs have a primary mission of community development, and they have the expertise to deliver credit and capital to low wealth communities. Amend the definition of community development to give banks favorable CRA consideration for when investing in or lending to CDFIs, regardless of where the CDFI operates. This would treat CDFIs the same as minority- or women-owned financial institutions and low income credit unions.

Second, provide full CRA credit for any investments made in nationwide funds that serve a national market. Pooled vehicles are effective in providing credit for community development activities, offering efficiencies and reducing risk through diversification. We should encourage investing in these vehicles. Similar treatment should be applied under the community development test for wholesale or limited purpose institutions.

Third, elevate the importance of small business lending in the interagency questions and answers by including more examples of CRA-eligible activities so that banks are encouraged to meet their community reinvestment responsibilities through loans and investments to small firms, as well as affordable housing.

Fourth, establish incentives for grants; equity; and equity equivalent investments or EQ2s that capitalize CDFIs. CDFIs are among the most effective intermediaries for delivering credit in low income communities. The CRA regulations should encourage capital investments and CDFIs by providing extra credit or greater weight for grants, equity, or equity equivalent investments in these organizations.

Fifth, eliminate all geographic criteria for wholesale or limited purpose institutions under the community development test. Changes in technology and how these banks source their short-term liabilities have rendered assessment areas meaningless for these institutions. Similarly, these banks lend nationally rather than serving a particular geographic area. Requiring these banks to reinvest where they're located concentrates their CRA activities in a few places while other communities may not be adequately served.

Sixth, reconsider the concept of innovative and complex lending and investments practices in the context of the current environment. Banks have dramatically tightened their credit standards and are making fewer loans, especially in low income communities. Small businesses cannot get adequate credit. SBA-guaranteed loans were considered routine a few years ago. They should now be deemed innovative and complex, as so few banks are making them.

Finally, create incentives for banks to extend longer term loans and investments. Rather than rewarding banks for making loans or investments that match the CRA examination cycle, encourage these institutions to offer terms that are more responsive to the longer term needs of borrowers by offering continuing CRA credit for the life of the loan or investment. I thank you for this opportunity to share our views, and I welcome your questions.

Elizabeth Duke:
Thank you. Ms. Trujillo?

Lez Trujillo:
Thank you for the opportunity to be here today. I am Lez Trujillo, Deputy Director for the Affordable Housing Centers for America. Our mission is to create and sustain affordable housing for low and moderate income families and communities. Since 1985, we've provided housing counseling to over 400,000 households. Over 106,000 of them have acquired a home, and more than 65,000 homeowners have received foreclosure prevention services.

There has been much said about all the changes that took place in the credit markets and with financial service providers since the CRA was enacted. Many of our colleagues have made a number of full, specific recommendations for modernizing and improving the CRA. Several of the ideas are including in our written testimony. Today I wish to focus on the conditions found in low and moderate income in minority neighborhoods. We believe that the CRA modernization needs to be a critical part of the redesign of our nation's mortgage finance system and that this redesign must be grounded in our new harsh realities. Of particular relevance with this discussion is the impact of the recession on incomes, creditworthiness, and affordable housing stock. Millions of Americans now derive income from sources that pay less and provide less stability. Millions of former and current homeowners have had their dreams and lives destroyed. Half a million homes sit empty with large concentrations in lower income communities. Unfortunately, this is likely to be the new normal for years to come.

The quest for solutions to these difficult issues facing LMI communities needs to be a primary driver of CRA reform and the creation of a new housing finance system. We suggest that the answers begin with the basics. Financial institutions must not be allowed to write off large segments of society or disinvest entire communities or types of housing. Our new housing finance system must offer paths for those who have lost their homes or been damaged by the recession to regain homeownership once they're ready. Responsibility for providing suitable financing for all types of affordable housing must be shared by all actors and not relegated to the exclusive responsibility of the government.

The new system must align the interests of homeowners and investors for sustainability at all levels: primary, secondary, and regulatory. As part of this alignment, our new system should create funding streams that build in and sustain a robust nationwide nonprofit housing counseling structure. For home buyers with multiple risk factors, counseling should be a mandated condition for receiving financing. Clearly, the new housing finance system needs to prevent a recurrence of predatory lending, which was disguised as innovation. Several of our colleagues have suggested that the principle of sustainable mortgage and creative finance should be factored into CRA regulations as should be the concept of negative credit for institutions or their subsidiaries or affiliates that provide abusive loan products. We support those recommendations. Innovation has gotten a bad name at a time when we need more genuine innovation than ever before.

Since the housing bubble burst, many successful mortgage underwriting innovations adopted by CRA lenders have been eliminated. For example, banks have eliminated the use of letters of explanation and compensating factors for worthy borrowers that have experienced unusual hardship, such as medical emergency. And had their credit scores reduced as a result. Such flexibilities were proven to be safe and sound alternatives to the old one-size-fits-all approach to underwriting and lead to sustainable housing loan for millions of first time home buyers.

Going forward, innovation in determining creditworthiness is going to be more important than ever; and the CRA needs to provide incentives for lenders who undertake it. We need to create way for damaged households to mitigate debt and credit history in a very short time so they get a fresh start. The current inadequate credit score-driven approach will deny mortgages, rental options, and other credit facilities to Americans hurt by the recession, even after they stabilize their income. Unless we're prepared to say that a very large slice of the population can never buy or refinance a house, the new housing finance system is going to have to develop alternative ways for determining ability to pay and new mechanisms for helping the homeowners sustain the ability to pay when hardest times hit. Millions of homes in the stressed low income communities currently cannot be sold because the only people willing to buy those homes cannot qualify for a mortgage. We need financing that enables this enormous pool of affordable housing stopped being serve and reoccupied, and some of that will require innovative approaches to the different kinds of ownership available.

We also believe that a reformed CRA must provide incentives for provisional innovative financing for rehab and retrofitting for energy efficiency of housing units, particularly for affordable units. High maintenance costs and high utility bills are a major threat to their sustainability.

I have described a few of the situations that require innovation and if they are to be addressed. Together, they're too large to be solved only by the housing trust fund or declining grant dollars. All components of the housing finance system, particularly the big banks, must be required to play a role. It will require innovation, incentives, mandates, and leveraging. As a start, the portfolio capacity of the largest lenders is going to have to be expanded and made available for CRA lending. Michael Stegman, former HUD Secretary For Policy Development and Research suggests that the top tier of the nation's CRA-covered institutions should have a duty to serve as beacons of innovation and creativity and the development of innovative affordable and sustainable credit products for underserved markets. Their performance at meeting this obligation should be evaluated by regulators separately from the performance assessment on the existing lending service and investment tests, and we could not agree more. Thank you for your time.

Elizabeth Duke:
Mr. MacLellan.

Ignatius MacLellan:
Good afternoon. I'm Ignatius MacLellan, Vice President of Public Affairs at the Northern New England Housing Investment Fund. We are a nonprofit syndicator of low income housing tax credits for Maine and New Hampshire. Our testimony today is supported also by Housing Vermont, which is the Vermont nonprofit syndicator. Together, we are the primary equity providers for tax credits in our three states.

Our testimony is also supported by the three housing finance agencies in Maine, Vermont, and New Hampshire; and they're the agencies that run the tax credit programs. And, finally, our testimony is supported by the three affordable housing coalitions in Maine, Vermont, and New Hampshire.

I want to begin with the confession that we are not expert in the technical aspects of the Community Reinvestment Act. And so we ask your expert staff to consider how the CRA regulations can promote bank investments in tax credits consistent with the needs of various sized markets across this country and in accord with the decisions made by federal and state policymakers.

Our plea: Please do not forget the smaller markets and the impact that the Community Reinvestment Act has in smaller markets. I must begin by thanking our investors. From the local community banks to the regional banks to the large national banks, their financial commitment and their community commitment to our communities is spectacular, and we're very appreciative. And I want to quickly give you a context just to tell you the type of housing that we build, describe our banking environment, and tell you why CRA is the component that keeps it all together. And we have a few very specific recommendations. As everyone knows, the tax credit program is the principal affordable rental housing production program in America. The type of housing deals, however, will vary based on the geography in which that is located. In our three states, the average tax credit property that we're building today is thirty units; total development cost of $6 million with the tax credit equity being about two and a half million; and they're generally built by smaller but experienced nonprofits. The good news: We're able to provide decedent, affordable housing that is a solid and safe investment. The bad news: Our deals do not fit banks' preferred business models. Our deals are generally too small for large banks and too large for small banks.

Let me just quickly tell you about our banking environment. So, in Maine and New Hampshire, four large banks hold about 68 percent of our total deposits. Community banks also have a strong presence. In Vermont, the banks fall into two categories. Two regional banks hold about

42 percent of the deposits; and there's a plethora of smaller community banks, but none of them has more than 10 percent. No large national bank has a significant presence in Vermont. I just want to make sure you know, we do reach out to non-CRA motivated investors. The problem is, on the deal size, even if funds have non-CRA dollars, our deals are too small. On the fund size, we're just not big enough, even though we do the outreach. So, generally, they don't play a role.

So how does the housing we build fit in with the bank business models, and what role does CRA play? Larger banks have certain business model goals for tax credits investments. Larger deal size; well-capitalized developers; and they would also like to get other business from their tax credit investments, such as loans and deposits. And so while the housing we produce is a solid investment, it doesn't fit that business model. Yet, in our states, the larger banks account for about 75 percent of the tax credit equity that we raise. Community banks play a significant role, but they cannot fill the equity need. They often lack the expertise; or, if they're willing to make an investment, they'll make one investment and then they don't return on a yearly basis. What the CRA does, it brings banks of all sizes to tax credit housing. CRA-motivated banks, especially large national and regional banks are and will be the primary source of tax credit equity in our states. The CRA is the tether to the local community and the counterweight to the business practices that could otherwise leave communities behind.

Our recommendations: The CRA regulations should allow a statewide approach to better align with state allocation decisions. The current regulatory practice of microscopic targeting of CRA to specific assessment areas has had negative consequences in our states. This statewide approach would align with the tax credit allocation process which is done on a state level. Number two, CRA should not encourage regionalization. Regional funds will hurt smaller markets. If you decide to go with regional funds, we would ask to make sure that the tax credit needs are being met in those communities already and the regional funds actually invest in these smaller, harder to reach markets. Third, the CRA should provide clear incentives to banks to make investments in smaller deals in smaller markets. On behalf of our housing finance agencies; our housing developers and investors; and, most importantly, the families who rely on us to meet their critical housing needs, thank you for your time and attention to this important subject.

Elizabeth Duke:
Thank you. This time we'll start with Deputy Comptroller Wides, and if we could keep this round of questions to 8 minutes at least so--in the right place, I think.

Barry Wides:
Okay. I'd like to thank the panelists for the insightful presentations. I wanted to start with Ms. Tassan who has worked with banks that are under strategic plan as well as banks that are not. And I wanted to come back to a point that we had talked about during the first panel this morning regarding how banks that you've worked with view disclosing the information in a public forum that needs to be provided in order for a strategic plan to be considered by the public. And has that caused any difficulties for the bank that you're currently working with, and was the proprietary concern that was raised by Ms. Wingard this morning, an issue--the previous banks where you've worked that perhaps strategic plan have been considered.

Vicki Tassan:
Okay, thank you for that question. I was going to ask someone to ask that question but I didn't have time. Basically, first of all, let me speak--

[Simultaneous Talking]

[Laughter]

Vicki Tassan:
Thanks, Martin. First let me say that we are working with the FDIC right now on our strategic plan, so it's in its infancy. But in other places where I've worked, first of all, I was the biggest naysayer against strategic plan you've ever imagined. I kind of pooh-poohed them and it was like, you know, too much work. And we were actually here at a meeting that the Federal Reserve of Chicago convened in December, and one of the staff asked the question to the audience and they said, "Does anybody in here operate under a CRA strategic plan?" And I was really afraid to raise my hand because no one else did. I was like, "Okay, well, you know, maybe this is a mistake." But here is the good news. There are clear guidelines about how to establish the CRA strategic plan and what should be considered. I am really impressed by the fact that you do get community input. And I have no problem setting goals for our business units, agreed upon goals, because they're agreed upon, and at the same time, the plan allows flexibility if the economy changes, if your business strategy changes, and I just--I have to tell I'm now the biggest support that you've ever seen to the CRA strategic plan. So based on past experience, I wouldn't have said that. But now that I'm more involved with the process and based on some other roles I've had, I would say banks not--again, not for every bank, so it depends on your business model, your strategy, the scope of your institution. But I would highly recommend to you, if you're here from a financial institution, to consider that as a way to provide really good community involvement as well as business practice.

Barry Wides:
Okay, thanks. I had a question for Mr. Ford. You were talking about responsible disposition policies and one of the approaches that you've touched on that I'd like to get a little bit more information about was programs that divert low valued distressed properties to beneficial lenders like land banks municipalities as pioneered by Fannie Mae and HUD. Could you tell us a little bit more about how those programs are operating and how that might provide instructive guidance for other institutions and other communities?

Frank Ford:
Yes. In my view, there's an evolution to how the lending community has been viewing how to dispose of distressed REO property. The first major step was toward what people are calling "First Look" programs, where local non-profits and municipalities give at least the first option to buy something. This is a further evolution beyond that. This--what Fannie Mae has done in Cleveland and now HUD is doing it as well is to say that any property that falls below a certain threshold -- and I think in Fannie Mae's case it's $25,000, in HUD's case it's 20,000 -- those properties are simply viewed as so defective that they really don't belong in the stream of commerce. They need to be extracted off the stream of commerce and set aside. And what Fannie Mae is doing is that anything $25,000 or less is basically given, donated to our county

land bank with an additional $3,500 cash contribution in those cases where it needs to be demolished which is, I think, so far, it's about 90 percent of them. HUD is doing $20,000 or less. Those properties are moved over, offered at least to our land bank, and I think that that's like it's $100 I believe. It's either donated or the city or the land bank has to pay a hundred dollars. These are both relatively new. So they are not--I think the Fannie Mae agreement might be about six months old. The HUD agreement started with the city and then moved over to the land bank. So, I don't know if the volume is more than a couple of hundred collectively yet. But I will say that in Cleveland, it is viewed as the gold standard for where we want to move to for low valued distressed property because when we don't have--when we don't have this remedy, these properties go out in the stream of commerce and are--they're churning over and over between flippers and speculators. And if I may just give you one example of a property that I personally have been in. In fact you can see I started in my own YouTube video. It's in the materials linked to it. It's a 2-minute video. It was a Wells Fargo property that is in severe damage. After I took the video, it was sold to a company called BestBuy properties that operates exclusively on the internet. They paid $2,500 to Wells and that seems like not a lot of money, but the alternative is this could have gotten, torn down, and Wells would have paid a $10,000 demolition bill. So Wells made up pretty good for $2,500. A week later, BestBuy sold it to somebody in England who saw it on the internet for $4,150. So BestBuy made $1,600 dollars for one week's worth. The guy in England, I feel really sorry for him because he has no idea what he bought unless he sees my YouTube video, so.

Barry Wides:
I have 2 minutes left. So within a few minutes, you could tell us whether the City of Cleveland has plans in place for what they're going to do with these demolished land bank properties.

Frank Ford:
Actually that is--I'm really proud of something that we're doing in addition to looking right on what's in front of us, which is what do we do with 11,500 vacant houses, we're also looking forward. And there is an initiative that's partly funded by the Surdna Foundation, but it's a joint effort of my organization, Neighborhood Progress, the City of Cleveland, the City of Planning Department, the new county land bank to look at a thoughtful approach to long term how do we reuse thousands of vacant lots. The program is called Re-Imagining Cleveland. It's also only about a year old, and it's starting with the immediate reuse for community gardens, a neighbor adopting a side lot. But the bigger picture is planning for 5-10 years down the road, do we build new housing? If the market comes back, there are talks about tree farms. It seemed completely unusual, you know, previously un-thought of uses for property in an urban context. So it's at least we're thinking about it now.

Barry Sides:
Thank you.

Frank Ford:
Yeah.

Thomas Barnes:

Mr. Ford, let's stick with you because your comments were as specific as anything I have read today from any of the panelists. I think you used the term "the banks were causing significant damage," so that was a pretty bold statement. If we were to adopt all of the recommendations you make on a nationwide basis, do you think it would result in more lending or less lending?

Frank Ford:
In terms of loan origination--

Thomas Barnes:
Yeah, loan origination.

Frank Ford:
It's a money out the door. I'm thinking--I guess I would like to believe that the result of the recommendations I'm proposing would be a strengthening--let me back up for a minute. I believe that markets like Cleveland, Detroit, markets that have been extremely hard-hit by this problem have excess vacant properties. Those markets are severely damaged. Home sales are depressed because nobody wants to buy near a neighborhood where half the streets, half the houses on the street are vacant. If we were to begin to pay more attention to what--how do we clean up the physical problem of all these vacant properties, I think in the long run, it may not happen overnight, but in the long run, we will have stronger markets, more home sales, and certainly there will be a greater need for credit. We'll be back to where we really need credit and can use it. Today, there aren't a lot of home sales, they're down, and that means lending is down.

Thomas Barnes:
Thank you.

Mr. Tisler, if I could ask you, should the performance test be changed to better ensure that all segments of the community are being served?

Lou Tisler:
I believe so. I really believe that looking at the community that it shouldn't just be shareholder wealth or being able to get a tick, but to be able to provide a better community or at least a stable community. And, you know, to dovetail what Frank has said, is that we think that being able to perform and to do right is going to be a good business decision. So, if these houses are taken off-line, there's going to be able to be more lending and more CRA lending to homes in these assessment areas.

Thomas Barnes:
Thank you. Mr. MacLellan, I know and I realize you no longer have a New England accent but I'm going to ask anyway. You talked that one of your precepts is sort of make the assessment areas statewide, and I think that probably does work very well for your product, your interests. What about in the three states you represent, there's a lot of small financial institution by any one standards. They call themselves "community banks" because they probably only serve one, two, three towns maybe. Would you penalize them if they couldn't meet the state test under this scenario?

Ignatius MacLellan:
Actually I think they would--it would actually benefit them if they had an interest in the tax credit as strictly an investment vehicle because their assessment areas can be so narrow that they can't go outside of the assessment areas, so they don't have that investment motivation. Where we've been struggling with the larger nationals at this time, we have a large investor, the housing finance agency put a project and hooks it at New Hampshire which is right next to Manchester, New Hampshire.

But because it wasn't in the Manchester MSA, the investor was reluctant to go there. That doesn't work. And we would love to get the community banks involved. We do significant outreach to them. They are more likely though, to be honest in terms of what they do on the ground, to want to invest right in their community because they do it for community purposes. The larger banks aren't as concerned about that specific community connection.

Thomas Barnes:
I asked the question earlier to another panel about, you know, could different products have different assessment areas and maybe this would fit there. So, a statewide product like UIs would fit but maybe local lending to, you know, borrow as regular one or two person borrowings.

Ignatius MacLellan:
Yes. If I could, I mean, like Re-Imagining Cleveland re-imagining the Community Reinvestment Act, acknowledging that banks have become the crucial partners with the public housing programs in America and other community development programs, whatever you can do to align the CRA with what's already out there in the public sector would be very beneficial even if it meant you had segregated test for different areas of community developments such as tax credits.

Thank you. Mr. McLean, can I ask you to put your exam on ahead on for me for just a second?

[Laughter]

Thomas Barnes:
You were advocating that CDFI lending, you know, could be without bounds as long as it was good and strong and serve the purpose. If a local financial institution wasn't doing well in the direct lending, the lending test so to speak, would you allow very, very strong CDFI lending to sort of trump it and still allow it to get a decent CRA exam rating.

Warren McLean:
Tough question. My thought is that the national CDFIs, I guess I would allow them to--my thought is that the national CDFIs would be sensitive to the needs of the local community. And an organization for instance like CRF has national partners around the country, and our mission is to make sure that we are supporting the organizations locally around the country, so we would be concerned about making sure that the local needs are met as well as the national needs around the country are met. So, and also I think that, excuse me, many, many organizations or many communities tend to be overbanked and specifically the large communities. And so, there are lots of local, or I should say rural communities or communities that don't have the same kind of infrastructures from the financial community that don't get the kind of support that they could get

if they had partnerships or support or networks or relationships with CDFIs around the country. So, I think there's a balancing that would occur because you're working with strong partners around the country.

Thomas Barnes:
You'd make a good examiner, thank you.

[Laughter]

All set.

Elizabeth Duke:
Okay. Thank you. I'm struck by this panel how little focus there's been in this panel on new lending. I mean it's been on the--obviously aftermath of some very bad lending. And first of all, I'd like to use this if I could as just a chance for a quick commercial. We are having an REO conference at the Federal Reserve in Washington on September 1 -- Joseph, is that correct? -- September 1 to look at a lot of these issues. And as we look at the proposal to UCRA to support neighborhood stabilization programs, it didn't comfortably fit in that model. But certainly, you know, everybody agree that was a petition, we've used it in the past to also help in areas of natural disaster. So, my question is any suggestions that you might have for ways that we can build in the flexibility in CRA to accommodate circumstances that change and change pretty rapidly without shortchanging the sort of core concepts of it.

Lez Trujillo:
I do have recommendation. One of them is to use the existing housing counseling infrastructure and improve it, invest in it so it provides some--reduce the risk for the system. I think that our--we are mixing apples and oranges. That is what if people cannot qualify right now for a loan because they mismanaged credit, but there is also what if people who had experienced hardships - they lost employment, they had medical emergencies, and there needs to be some sort of intermediary that can assess the differences, the financial practices, the management that has happened and figured out who are these individuals that can really qualify and sustain a mortgage for the long term. And that right now is not being considered credit in the communities that we serve has virtually disappeared. All of the underwriting guidelines that assisted us to qualify individuals with these multiple risk factors have been removed. And we will like for housing counseling agencies to play that key role to help the lenders and regulators figured out what new practices, what new guidelines we will need to have that accommodate those hardships and difficult circumstances. Right now we really need credit back in our communities, and we are really not seeing that.

Vicki Tassan:
Gov. Duke, if I could add to that. You know, this is a challenging, very challenging situation that we're talking about. If banks work, and again I'm speaking broadly not as someone from my bank, but if banks work with local community groups and with individuals and either modify the mortgage, reduce it, whatever, the challenge still exist, people have to have a job, and people are losing their jobs. So the jobs and the housing go hand in hand. And so regardless of how much a bank may want to do to accommodate some of the borrowers who are either near foreclosure, in

foreclosure, need a loan modification, the economic circumstances are still a challenge out there. And I think that's something we need to put on the table because it's, you know, the White House talks about jobs all the time. And of course being in DC, it's all I listen to is political shows. But it's incredibly it's hand and glove, both issues.

Elizabeth Duke:
Anybody else on the flexibility issue?

Male voice:
Pardon?

Elizabeth Duke:
Is there anybody else on the flexibility issue?

Frank Ford:
Not--you know, the only thing that I wanted to add is when you had said that we didn't talk that much as a panel about lending, I realized I'm even surprised that I didn't because a year ago if I've thought I'd be here I'd be saying something about CRA, and I--and I really start to the post-foreclosure REO property for the most part. But the one thing that I'm a little concerned about I've been hearing over the last couple of years often it's news commentators saying CRA was the cause of the foreclosure crisis. And I guess just a moment to say, in my opinion, after observing it over 30 years since, you know, when CRA even began, that the CRA lending that took place from 1977 to about '95 was safe and sound lending. We put a lot of people on homes and there were very low default rates. The problem didn't start until the rise of subprime lending when safe and sound lending was basically tossed out the window. The beauty of CRA has always been the marriage between, on one hand, meet the credit needs of the community, but do it consistent with safe and sound lending. And I guess I would say if there's pressure on you to undo CRA, at least let's not undo it because its basic principle is very--is still very strong.

Ignatius McLellan:
And if I could, please, I mean I would ask flexibility for what purpose. The Community Reinvestment Act is designed to serve the local communities clearly in a safe and sound way in a way that works well for the investors, but I would caution to not go with flexibility to meet a business model that may not match with community model. So, I like the way you talked about core principles and the flexibility, and that would be my request. That's a very delicate balance. But as we move towards, you know, larger and larger institutions from our small state perspectives, you know, how does that work, you know, does that flexibility for the business model end up hurting the core principles of the communities.

Lou Tisler:
Governor Duke, if I could. I think that the practitioners understand the tightening of the lending market, and so, you know, not addressing that aspect.

Our concern will be the proportionality of where that lending market goes. I mean if it is only going to be lent to those at 780 who live in a certain community or certain demographic then we're gonna be back here and being much more loud and vocal about that. But I think that from our experience on the panel now, we're looking at a reactive approach to it by saying, "Okay, here's what we've seen." And that flexibility, I think, in the changing times, you know, whether that means, you know, as talking about doing sustainable modifications or actually principal write-downs and giving credit, CRA credit for that to happen is flexibility that we definitely need.

Elizabeth Duke:
Okay.

Barry Wides:
Thank you. I wanted to come back. I've known Vickie for a long time, so for me to call her Ms. Tassan is a little strange.

[Laughter]

Vicki Tassan:
I thought that was strange of Barry to do that too, but I didn't say anything, so

Barry Wides:
But I--

Vicki Tassan:
I'm sorry--do you miss your pen?

Barry Wides:
I wanted to come back to your strategic plan. I gather it has been submitted so you don't have a final completed plan --

Vicki Tassan:
Right. It just started.

Barry Wides:
--publicly available. But it's intriguing 'cause it respond to some of the issues we've been discussing this morning which is CRA in effect in institution with only one physical location in terms of a branch, but you do lending on a national basis. You're a substantial institution with $60 billion of assets, $30 billion of deposits, so that the strategic plan you developed, I gather, is an effort to expand your assessment areas. Is that--is that right?

Vicki Tassan:
That's our hope, yes.

Barry Wides:
I was wondering if you could just share with us as is in a general way, and you may not or if it's all sensitive, just what the thought process was and what is it that you were trying to achieve with--

Vicki Tassan: Sure.

Barry Wides:
With your plan.

Vicki Tassan:
I'd be happy to. The thought process really started out when I looked at several things, where we were taking deposits from all over the country, where we had large concentrations of employees whether it was a call center, a mortgage office, mortgage operation, or you know, several hundred employees in one location. Also we looked at the not-for-profits that were in several markets where we had again deposits and employee concentrations and realized that there were some outstanding community partners with whom we could work, and that there was a real opportunity for us to make a difference. Some markets are so overbanked that I automatically said, "I don't really think that's some place we need to look because it got a lot of great financial institutions there already." And then I took the additional step of doing community needs assessment for about 20--I tried to do 20 in each of the proposed additional areas and asked them with a third party research firm. They didn't know who was asking the questions, but, you know, what are some of your credit needs that are out there right now, you know, what could a financial institution do for you that isn't being done already. And consistently across the board, the three issues were low-cost loans, predevelopment loans, and some type of grant or equity investment. And that was consistent regardless of where we went with the market research. So, we did that in advance just to see, to kind of gauge the need and the opportunity out there.

Barry Wides:
And I'm interested, what was the impetus for the decision to go with the strategic plan since it's something you hadn't done before.

Vicki Tassan:
Basically, we thought it was--it will--it provided both the flexibility and for you to determine upfront what would the goals be for lending investment and services. And to know that over a three-year period, you had an opportunity to meet a target so as much more quantifiable than qualifiable. And it really gave you a real laser focus. So again, I could be able to post--I'll do the PSA whenever you want it.

Barry Wides:
Okay, thank you. That's really very helpful. Let me ask, this has been a very helpful panel and you've addressed some issues that haven't been raised before, so it's particularly helpful. I'd be interested just to go down the row and the time we have, if there's one regulatory change, we--that's the limit of our authority. We don't have the ability to change the law but we do have authority in regard to the regulation. If there were one regulatory change you would like to see in CRA, what would it be?

Ignatius McLellan:
I have so many. It's a tough one, but I might--I'm inclined to say the thing that concerns me the most is that so much of the--what I would call the damage being done. The decision-making is not done in the lending department of the bank, it's being done in the mortgage servicing division

of the bank. And it--it really is off the radar in terms of how we can get our hands around it, how we would find out about it. I think if I were to pick one thing it would be that in your examinations, the banks, somehow, this has to come out. The servicing activity--I mean just if I could go just a little bit further that what we often find, and I'll go down to like specific properties like the one that I referenced earlier, we'll talk to the lender, Wells Fargo, and on the deed it says, "Wells Fargo, Trustee," we'll say, well, were they just a trustee, we don't make these decisions. It's the servicer who makes the decision, who makes--So at some other bank's servicing department, you got to talk to them and they'll say, "Well, we don't have legal title. That's Wells Fargo. They've got legal title. Their name is on the deed." There's this back and forth here. And I think the servicing activity has been in the backroom from the perspective of a lot of us and if there was a way that that was more front and center and there was accountability for what's being done at the servicing departments at the banks.

Vicki Tassan:
Well, I'm going to completely switch gears here and instead of saying what you think I would say, I'm going to say that with regard to rural and Native American lending and investing, that we--anything--any deal that's considered or done in those communities should count for CRA purposes. I managed rural lending and community--and Native American lending and investing for many years, and those deals are so challenging. The economies are so stressed that there should be an immediate focus, and great, you did that, that's wonderful. And in addition to that, I think we need some clarity around the definition of what is rural. It's all over the place, and it goes back and forth depending on who you talk to. So moving from a more urban focus, I would say that rural Native American, we should look at that from a regulatory perspective and expand it.

Frank Ford:
I think from a community perspective that the modernization of CRA includes as many institutions dealing in the financial markets as possible with the caveat that there'll be a differentiation of the exam per community need.

Barry Wides:
I'm not sure if I can--I'm not sure what you meant by that last point.

Frank Ford:
That--that it's not a one size fit all. That again what needs to be looked at in Cleveland or the Midwest is not the same thing that needs to be looked at on the West Coast.

Warren McLean:
I think I've reiterated the point I made about the CDFIs being given the same treatment as minority and women-owned financial institutions as well as low income credit unions. And the other point I would make I know you asked for one was to give credit for longer term loans and lending so that the banks would be incentive to make longer term loans which, I think, benefit the needs of the community.

Lez Trujillo

Give extra credit for innovation that really address emerging issues. We'd certainly need a different type of lending, we need more energy efficiency retro-fitting programs. We need programs that improve loan performance and deplete purchase item post-purchase side. And the challenge is too big for all of us. We need everybody - the private, the public, the nonprofit system to work together on this.

Ignatius McLellan:
Great. For community development activities align the CRA geography requirements better with how public--other public dollars are allocated, the market realities of the different geographies without becoming too remote from where the banks were actually doing business.

Barry Wides:
Thank you.

Male Voice:
Thank you.

Female Voice:
That's great.

Elizabeth Duke:
And I'm gonna give you one last chance to say, you know, this is your last--last thought that you'd like to leave us with, the single most important thing that you think has come out of today or your thoughts for the day.

Frank Ford:
Well, that I've learned today or that I still might want to say today?

Elizabeth Duke:
That you still might want to say.

[Laughter]

Frank Ford:
Okay. Well, if I were to add anything, it might be the one I was asked that difficult question, if there's one regulatory change and I was struggling with that, I will say that the other one would be in the category of the collateral of the loan is something that gets lost in this entire process, and once the home is abandoned, that collateral is what's doing a lot of damage. And if that were paid attention to somehow, if the foreclosing lenders were, as I said, asked the question, well, if we file this foreclosure and the home goes vacant, does that got any consequence to us, I guess I would, like the examiners, to ask them what damages that activity doing to the communities you work in when you file these foreclosures and let the homes go vacant. And the truth is they often don't get much back out of them in the way of value. And yet by taking that action, it precipitates the vacancy, the abandonment, and then there's a lot of financial damage in terms of lost property values and millions of dollars in lost property tax for schools and other municipal services. So there's significant harm. And so to wrap it up, it would be that some attention is paid to the

collateral, the physical asset itself, the one that's left there vacant. What's happening with that? Who's paying attention to that? Thank you.

Elizabeth Duke:
Okay.

Vicki Tassan:
I think my headline will be performance context. I say that because at the FFIC conference in March, many--I went to every session, and every session, one of the regulators said, "You need to focus on performance context." And for those of you that are not as ingrained about the exam process, it's really the bank's opportunity to tell their story about what's occurred since the last exam, whether it's economic conditions, change in housing stock, jobs, whatever. And I don't think people really know how to use that, and we're not given enough guidance about how important it can be to tell your story during a regulatory exam. So, performance context. Okay.

Lou Tisler:
I think that the main thing is that lending to qualified low and moderate income homeowners is not only morally correct but also has the ability to create a competitive ROI. And to jump also on something that Frank opened the door to, that we continue to have to say CRA is not the reason for the foreclosure crisis or the housing crisis. I know we've said it once, but I think that we need to say it about 15 million times for the general populace to understand that because when they see CRA, they say that is why we're in this mess, and we have to continue to hammer home that that is not the case.

Warren McLean:
I would encourage or say that we should elevate the importance of small business lending. There's not a lot of small business lending going on right now. And so we would say that we should add, as I've stated, more questions with respect to, for examples with respect to small business lending as a--in the Q and A to encourage that. And also even make small business lending, one of the innovative and complex lending investment opportunities now just because it's the statement that was made about context in this environment that hasn't been a lot of small business lending, and so even SBA lending is innovative in this environment.

Lez Trujillo:
My--so, it would be that we have one of these types of dialogues and forums where practitioners on the field come bring up the different perspectives that we are seeing from the different communities that we serve in and bring the African-American, the Latino, the Asian perspectives from both the client and what really is happening in day-to-day in our communities. And they need to be more often done what we've been having. And learning--learning and really trying to implement some of the lessons and ideas that people bring to the table.

Ignatius McLellan
And I would say that those of us who work in community development fill an incredible responsibility to our communities, and trying to translate that incredible concern into something that technically works and works within a very complex financial arrangement, and then the CRA is a daunting task. I want you to take away from me today that some of the folks who are

pushing for regionalization of tax credits in terms of CRA, they don't have everybody's support. That being said, I want you to hear our commitment to work with them and to have the dialogue, and to seek out expert advice on how can we serve the different sized markets 'cause I think we all are committed to that same mission of helping lower income folks, we just come out from different perspectives. Thank you.

Elizabeth Duke:
Thank you. This panel was given the responsibility to address regional and emerging issues, and I think you did a magnificent job of filling that, so please help me thank this panel.

[Applause]

Elizabeth Duke:
Alright. We are going to move now to what I call the lightning round, and this is where we have individual presenters. We have only 90 minutes for this and we have 27 presenters. So, you know, they will each be held to three minutes. And Alicia, you're gonna give instructions on how we do this?

[Background conversation]

Alicia Williams:
Alright. We're gonna take a break and then we're gonna start promptly at 3. Those that are presenting if you could come up to the front of the room and be here upfront by 2:50, please. Thank you.

Female Voice:
It's very helpful.

Male Voice:
Yeah.

[Break]

Alicia Williams:
We’re going to get started… if everyone can take their seats. We have quite a bit to get started.

My name is Alicia Williams. I am vice president here at the Federal Reserve Bank of Chicago, and we’re going to move into the next part, which is the individual presentations. If you picked up an agenda, you have a list of individuals that will be presenting, and I ask once again with the cell phones if you will turn them on mute or silent. The general guidelines again are that we have Jennifer here who is in the front of the room.

Now I’m not sure; are you using the device or just the cards?

[Inaudible comment]

We have a device here with three lights. It will be green when you start. Yellow will take you down to two minutes – or one minute, okay. Then she'll give you a sign for 30 seconds, and red, your time is up. The way we're going to move this along is that you've got three minutes to give your comments, and again, she'll show you a sign at one minute and thirty seconds. Just step up one right after the other, and as you're done, exit to the left so we can keep the flow moving.

I'll turn this back over to Gov. Duke.

Elizabeth Duke:
Thank you and we do have a special treat today to lead off the individual presenters and that is the Reverend Jesse Jackson who absolutely epitomizes concern for communities and community reinvestment, Reverend Jackson.

Jesse Jackson:
Thank you.

[Applause]

My name is Reverend Jesse L. Jackson, Sr. former President of the Rainbow Push Coalition, honored to be involved with this testimony session today. Even as we meet the news today is foreclosure out distancing modifications, Wall Street is rejoicing while community banks are collapsing. The water is still gushing in the hull of the ship while those on the deck as there interest investments are rejoicing. A major bank bailout now to be a predator a huge find in just today's media.

Let's reevaluate the current CRA proposed subtitle one, section 1801 of the House Financial Reform bill addressing the inclusion of minorities and women, diversity in agency work force. There is a lack of African-Americans and other minorities in the twelve regional federal banks. There's proof that African-Americans and Latinos were targeted and steered to sub prime loans, higher priced loans and those for which they weren't qualified, brokers often received kick backs for steering borrowers into high priced loans. These predatory lending practices, not CRA as some have mistakenly argued, are the cause of the high levels of foreclosures and abandonment of whole neighborhoods of homes. Congress needs to apply CRA broadly throughout the financial industry in order to maximize safe and sound lending and investment in communities. CRA should be strengthened, expanded to address all the changes in the financial industry, protect us from another financial meltdown.

Assessment areas of the geographical area on CRA exams must cover the great majority of the bank loans. Currently 25 percent of all home purchased loans are made by banks offered in their assessment areas. People of color receive more high costs and risk in lending than was justified based on their credit worthiness. If CRA considers classifying by lending and service provided to minorities, racial disparities in lending will be reduced. CRA exams must have more ratings in order to provide meaningful distinctions and performance. Over the last several years, 99 percent of banks have passed the CRA exams. Mergers and acquisitions have declined, meaning that additional enforcement mechanisms are needed, their lending and review of CRA exams must be more detailed and must include reviews of safety and soundness of loans. Incentives for superior CRA performance such as eligibility, the more tax credits on new markets, on low income housing tax credit programs could be considered but we must strongly...be strongly opposed to providing exemptions for merger review or less frequent CRA exams for banks with outstanding ratings. Let us increase responsible lending by holding banks publicly accountable.

In order to bolster affordable bank lending and basic services we support enhancements to small business data to include the race and gender of the small business borrower. Census track data on community development lending and investing in bank deposit and consumer lending on a census track level. There's a poorly favorable CRA consideration for investments and multi-regional forms for low income housing tax credits. All CRA-related investments as a way to serving diverse areas including rural communities. We also belief that the bank must be adequately serving its assessment areas, which have outstanding on their investment test before being allowed to venture outside of their assessment areas. The recent finance reform bill includes a vision to establish an office of minority inclusion in federal agencies. This position is responsible for the evaluation, monitoring and to implement the inclusion of minorities and women. This is [inaudible] is all I have to say, the recent finance reform bill includes a provision to establish an office of minority inclusion in all federal agencies, this position is responsible for the evaluation, monitoring and to implement inclusion of minorities and women not only in the twelve federal banks throughout the government. Additional recommendations which should be considered. We need a czar, somebody who has the power to make it happen, enforce it and fund it. The support of the CRA consideration for financial institutions, investments in the emerging markets for small businesses, to ensure that adequate capital will become available to strong, worthy, small minority and women-owned businesses that have little or no access to much capital that's needed today. It creates the incentive for these institutions to do what they are in business to do. Lastly the czar again will support the creation minority inclusion diversity cabinet position and minority inclusion cabinet position with the same enforcement attributes of the other cabinet members. Federal law requires banking regulators to protect citizens for balance of race, [inaudible] the CRA regulation and enforcing the law will go a long way to play with one set of rules even if applied to all Americans, from native Americans, African-Americans, Latino American, Asian American or European American. If the playing field is even and the rules are public and the goals are clear we all can win. But you see, civil rights law only matters if it has...if it has oversight that's credible, if it has oversight the law is founded and enforced. Thank you very much.

[Applause]

Tony Pierce:
I am the Reverend Tony E. Pierce, I am appearing on behalf of the PRA Ministries Economic Developing Organization and Illinois People's Action formerly known as the Central Organizing Project. Thank you for the opportunity to testify in this public hearing.

Urban sprawl and suburban and exurban flight have resulted in significant capacity loss in many of our urban and rural communities. This capacity loss is evidenced in the form of shrinking tax bases, shuttered businesses, reduced employment, foreclosed upon housing, under performing schools, loss intellectual capacity of capital and reduced services. All of which have been severely exacerbated by the recent near collapse of our national economy. CRA as it is presently designed is ill-equipped to combat these problems from a community development perspective. This is because it fails to connect the challenging community development opportunities existent within our low income impoverished urban and rural communities with the robust community development opportunities existent within our middle and upper income sprawling communities and our middle and upper income suburban and exurban communities. Most of our financial institutions are reluctant to finance community devolvement in our low income impoverished communities because of the severe challenges associated with such development. Therefore, when they finance CRA-eligible devolvement in these communities institutions typically lend the least amount of money possible for the projects to receive CRA credit for the loans then they typically retain the loans on their books because they are unable to sell them on the secondary market to raise new lending capital and finally they generally write the loans off as losses because the loans as presently designed often prove to be unsuccessful.

Consequently CRA as it is presently configured often fails to generate enough community or regional community development, critical mass to successfully transform low income communities into prosperous mixed middle and upper income communities. Conversely most of our financial institutions are eager to finance community development in our middle and upper income communities because the loans in these communities often prove to be very successful. Many development projects in these communities are financed at below market rates because they often attract the best credit-worthy developers and offer the best market potential. Consequently the loans of these projects financed by lending institutions are often easily sold on the secondary market to raise additional lending capital.

Therefore CRA needs to be reconfigured to connect the challenging community development opportunities existent within our low income communities with a robust community development opportunities existing within our middle and upper income communities. This can be achieved if middle and upper income community development projects become CRA eligible provided that there is a demonstrated transfer of benefits from them to CRA eligible low income communities. Such demonstrated transfer of benefits should minimally include the following four conditions. One, the middle and upper income development projects must include a minimum threshold of minority business development associated with them. Two, the middle and upper income key development projects must include a minimum threshold of pathway out of poverty jobs associated with them. Three, the minimum and upper income development projects must transfer a minimum threshold of financing to the low income communities through CDC's, perhaps at the rate of 1 percent of their total financing of their expense. Thank you very much.

[Applause]

Jack Porter:
I'm Jack Porter from Bloomington, Illinois, representing Illinois People's Action. In my submitted written testimony I've described my experiences in CRA matters during the past 18 years with the Central Illinois Organizing Project, now Illinois People's Action. They've been varied and extensive including negotiating, implementing and monitoring CRA agreements and interacting with regulators, you can read the particulars.

My first point today is that community organizations need to be more heavily involved in CRA implementation and performance evaluations. Two years ago last spring, a group of NPA leaders met with senior officials of the FDIC, one of them confessed to us that we had warned them about the effects of toxic home mortgage loans in our communities and they had not paid attention to us. Our message is...never again. From now on community organizations showing a serious commitment to work with financial institutions to meet the credit needs of our communities should be an integral part of CRA activity. I'm talking about partnering with banks in identifying credit needs, planning to meet the needs, implementing plans and evaluating results. Examiners and performance evaluators need to engage with us and take our comments seriously.

Upon our request public hearings should be held to get community feedback on bank performance. Our input should have a real impact on examinations and evaluations. There should be an appeal process available when they don't. We should be part of any remedial actions.

My second point is that foreclosure practices should have great weight in CRA evaluations. The August 4 article in Mother Jones by Andy Kroll is a sickening description of the devastation caused by foreclosure mills and the widespread fraud they employ to dispossess millions of American families. Any CRA regulated institution using these mills should receive an automatic unsatisfactory performance evaluation, but any institution engaging in good faith mediation with home owners to successfully modify loans should get CRA credit. Mandatory mediation is being implemented here in Cook County now. It's worked well in Philadelphia and elsewhere. Where it's not mandated services and holders of notes should offer mediation, participate in good faith and get CRA credit for successful modifications.

Save home ownership and save communities, reward mediation and loan modifications. Thank you.

[Applause]

Charlotte Dotts:
Hello. My name is Reverend Charlotte Dotts; I'm from Bloomington, Illinois. I serve a community. I serve a people that are not necessarily considered worthy of receiving bank loans. I know that's true because, though the banks in our area thought we were not worthy to get home loans, they did decide that we were worthy to receive payday loans. Because they capitalized, they financed payday shops to loan money and as high as 400 percent to individuals that were single parents, the elderly. These people were preyed upon and not p-r-a-y.

They were preyed upon by some of the legal loan sharks that provided money to pay bills, to pay for medical bills, to pay for children who had needs and these same banks were not written off for CRA credit because of it. Why should they get good grades for bad loans? Why should they receive pluses, A's, when they're giving loans at a rate that cannot be paid for? These individuals, the elderly, the single parents, they in good faith thought they were receiving help because that's what was said. They were smiled at, the commercials they smiled at them. They said let us help you, let us fix your problems; and in actuality their problems mount because they pay weekly but they don't pay off the loan. They pay weekly, all they're paying is interest, they pay weekly, they offer them more money to help them, but they owe more and they get so in debt that they are then just like they said--unworthy credit risks. And, the banks have gotten good CRA ratings for bad loans.

I believe that it's time for us to help all people. Give people training, give people education, give people what they need so that they can make themselves creditworthy. Start with the young people in college who are getting credit cards at exorbitant interest and teach them how not to go to payday loans but how to get loans from banks, how to be solid investments in America. I believe that we were deceived, that we were slicked by the banks to make themselves prosperous.

[Applause]

Linda Gessaman:
My name is Linda Gessaman. I'm from Homeless United for Change out of Springfield, Illinois. We're affiliated with the Illinois Peoples' Action Group. We're a community-based organization. We're an organization that facilitates leadership out of the homeless community to change injustices such as these, such as the bank greed. Homeless United today has come today just to introduce you to a new socio-economic group. This group is made up of homeless individuals or people who have experienced homelessness. And it is comprised of people who go to the missions and the shelters and the breadlines.

But these people too have banking needs. They are no longer individuals without money; they have money, they have income but they have nowhere to live. But the CRA as I understand it is intended to help all people in all communities, and this is no exception. So we would like the banks to start stepping up to the plate and helping these people instead of penalizing these people because of their disabilities. We have experienced many people who use the banks and because of whatever disability that they have, they may have a mental disease that they can't comprehend the services charges at the bank. When they bounce a check--it's not like you and me. One check will bounce another check and another check and pretty soon their social security income is ate up and they're rendered homeless and they are on the streets, and they can't get back up. It's very important that communities-based organizations are involved in CRA.

I'm a part of that story too. Our parsonage, actually our bank from Springfield, the Illini Bank, called in our loan after five years. We had a 15 year loan and we didn't know it wasn't disclosed; that they wanted--it was a balloon payment. They wanted $65,000; our banker called us on the phone and we were all surprised. We went in and we spoke to them and they were not willing to negotiate with us until we told them that we were part of Homeless United for Change and that we were part of Illinois Peoples' Action and they were a part of National Peoples' Action. They were not willing to negotiate with us as individuals. That's why we need community-based organizations involved in CRA. Thank you.

[Applause]

Cliff Parks:

My name is Cliff Parks and I'm from Peoria, Illinois. I'm here on behalf of Tom Tincher who had a conflicting appointment in Washington, D.C. and was not able to come. We work with the Community Development Service Institute.

Central Illinois Community Service Collaboration has been working with the Chicago Federal Reserve and Central Illinois lending institutions to establish a broadened approach to secure CR credit for lenders and at the same time be much more effective in reaching CRA goals. Today, the Community Development and Service Collaboration refers to this new and transformative approach to community revitalization as being--are saving our neighborhoods by growing our region program. Through our community-based planning and project facilitation center we have generated 16 major regional projects with a total development cost of nearly $1 billion and several thousand construction and permanent job opportunities. As the designer of these projects we are including many small minority business development opportunities and a substantial number of pathways out of poverty jobs.

These opportunities will be available first to our target neighborhood residents and these residents will be supported by timely training and needed services. However, the most important part of this is the willingness of our participating lenders to make below market rate loans to the participating regional project developers in return for the developers commitment to the small minority business development components; and their commitment to pledge 1% of the below market rate financing as a revenue stream for the life of the commercial and residential loans. This new revenue stream will support target neighborhood transformation projects and support small minority business development and pathway out of poverty programming. This holistic approach outlined in the handout that we gave you that we have provided as a potential to be one of the most significant approaches to realizing the sustainable transformation of distress neighborhoods and target neighborhoods in our communities.

By amending the CRA to allow banks to receive CRA credit for financing these projects and programs at below market rates, urban, world and suburban economic growth is stimulated. Banks have qualified developers that are involved, and loans can be sold on a secondary market. And most important the target population, the distress neighborhoods, are those that are in trouble are served. We encourage the Federal Reserve to help us draft a process and necessary legislation in order to bring this change about.

[Applause]

Laura Page:
Hello my name is Laura Page. I'm a Policy Advisor for the State Treasurer of Illinois, Alexi Giannoulias, and I'm here on his behalf today and I want to thank everyone for hosting this event.

Our office works with financial institutions everyday in a variety of ways, and we're committing to making sure that those banks are really serving those communities. So my focus today is the importance of building transparency on the regulatory side of the CRA, specifically with regard to the ratings, the qualifying activities and reporting.

So as most of you know more than 95% of banks in Illinois receive a grade of satisfactory or better, which makes it appear that we are already doing enough but we know that that's not the case. When CRA ratings were first made public 20 years ago, one in 10 financial institutions failed their exam. Today that number has shrunk to less than 2%.

In the state treasurer's office we want to know which banks are really going an extra mile; and we only want to do business with those that show commitment to their communities. So we require all banks that receive state deposits from us to sign a CRA pledge that goes beyond just earning a simple satisfactory rating. They also must show commitment to providing non-predatory foreclosure prevention products, conventional banking services to the unbanked, and small business loan products, among other things. So we're doing what we can at the state level but new federal regulatory reforms are really necessary to make clearer distinctions between banks that are really going that extra mile or just earning satisfactory by the skin of their teeth. To achieve this we recommend that the agencies assign ratings on a numeric scale of 1 to 100 rather than 0 to 24, which is very non-intuitive. All of us that went to school understands what an A, B, C, D, F grade is. It would make it much easier for us to understand that these banks are really doing.

The agencies also need to refocus on what the purpose is of CRA and clarify what qualifies for CRA credit. We've come a long way, as many people have mentioned today, since 1977, when lending was a key indicator of community development. Today, however, we believe that giving the service test more weight will encourage banks to help serve low and moderate income communities one individual at a time. And we want that weighting to be clear and transparent and proportionate to a given community's needs.

To give some examples of qualifying activities from our office we recently launched a new microloan program which provides a safe alternative to payday loans, and we worked with a number of people in the room--thank you for all your work on that. We also offered Bank on Illinois which is a statewide initiative to provide checking services to unbanked people. And then finally through our link deposit programs, we offered low interest loans to borrowers enabling them to gain access to credit in these really troubling economic times.

I'm going to skip to my final recommendation which is the in order to make the process more transparent and banks accountable, it's really important that we ensure that the resulting data from these exams is accessible and easy to understand. Right now all the information is on each individual agency's website. If it was all in one place to get everyone's score report so we can compare and contrast, that would be very important. So thank you for your time today.

Bobbi Ball:
My name is Bobbi Ball. I'm the Executive Director of Partners in Community Building. Partners in Community Building is a nonprofit dedicated to providing in fostering safe, sanitary and affordable housing to low to moderate income families, individuals and seniors, as well as financial education and human service information. I applaud the intentions to improve CRA; however, I believe that regulatory action alone is not sufficient. That Congress needs to apply CRA broadly throughout the financial industry in order to maximize safe and sound lending and investment in our community.

Meaningful reforms to CRA will promote economic recovery through sustainable and responsible lending and we need responsible mortgage lending in our communities that were hit hard by foreclosure, um, many of the mortgage companies that offer these loans did not consider the borrower's ability to repay, or they had a lot of loans that were no documentation loans, and if a lot of these institutions were covered by CRA, perhaps some of these loans that were made to these individuals would not exist today. So, as beneficial as the CRA has been we believe that if these reforms are implemented the CRA could reach its full potential. Thank you.

[Applause]

Paul Bellamy:
Good afternoon, my name is Paul Bellamy, and I'm the Director of the Cuyahoga County for Closure Prevention Program. That's in Cleveland, and we're part of Ground Zero and we're trying to put our community back together again. I work quite closely with Mr. Ford and Mr. Tincher. It's a really hard place to be right now.

I'm here to suggest not improvements to CRA Regulations but what I consider to be the elephant in the room, which is my contention or at least my belief that unless there's a thorough going review of the regulatory capture of your agencies by the financial services industry, improvements to the CRA however thoughtful and earnest will come to naught. I began participating in bank challenges under the CRA bank in 1997 and I was involved in about five of them through until 2007. I did the HMDA research, wrote up the challenges; and what I found is in all of my exchanges with the Federal Reserve and the Office of the Comptroller of Currency I was invariably treated as a rank outsider. We were barbarians at the gate attempting to get the attention of someone, anyone inside the regulatory fortress, who knew and-or cared about the communities afflicted by the increasingly detached fee driven, ethically suspect dual market mortgage industry. Now in my written testimony I go into CRA grade inflation; that's self-evidence. Anyone looks at the scores from 1995 through to the present day can see that there is really no fair evaluation going on and if you read Professor Stagman's research on the matter it's not just a matter of happenstance or lucent regulations.

But what I wanted to do is get back to a merger challenge that we did for National City Bank in Cleveland; they were buying an Ohio depository, this was 2004 and we thought this was an excellent time to look at what was the effect of depositories jumping into the subprime business. And so we used this as a perfect example. They bought First Franklin, we could look at First Franklin's loans, we could look at the conforming loans from National City, we could raise issues. And the one that really came up the most was race; the two loan types were extraordinarily distinct, and subprime was being pushed into the minority communities at a horrendous rate. Now we didn't stop the merger, we really didn't think we were going to, but the HMDA data that we used was similarly dismissed; and the order from the Fed assiduously avoided discussing the differences between First Franklin subprime mortgages and National City Bank's conforming loan products and their suspiciously distinct distribution channels. None of this equivocating on behalf of National City and its new and exhilarating subprime venture was a surprise; although the vigor and enthusiasm the Fed brought to the effort was remarkable. It was simply more of what we knew all too well from years of shouting, jumping up and down and waving our arms at the gate. The regulatory fortress was run by and for the banking industry; and as for the community suffering from the virulent subprime plague; they found themselves lying outside the walls as well. Thank you.

[Applause]

Clifton Berry:
Hello my name is Clifton Berry. I'm here as a private citizen, and I've worked in financial services since 1979 in various sectors.

While tens of millions of Americans remain outside our regulated banking system, we have had massive consolidation of regulated depositories in the United States during the 33 years since the Community Reinvestment Act became law. And ten financial institutions in the United States now control 75 percent of the country's total banking assets. This suggests that the CRA Regulation has not been effective in influencing regulated deposits or even meeting the needs of a large proportion of the American people for access to financial services. Rather, these Americans as a market segment have been ceded to predatory providers of financial services and products. My written comments have been submitted and they address the following areas: Geographic coverage, affiliate activities, small business and consumer lending, access to banking services, and ratings and incentives.

I would summarize my written comments as follows: You should change the CRA to focus on individual consumers versus communities. You should change the focus on access for individual consumers to financial services and products via delivery systems appropriate to targeted consumer segments. You should change the CRA to focus on the achievement of market share targets among the unbanked and the under banked in the given institution CRA assessment area. You should change the CRA to require individual institutions to establish written business plans for achieving market share among the unbanked and the under banked. You should change the CRA to base ratings and performance evaluations on performance against written business plans for achieving market share goals among the unbanked and the under banked. You should change the CRA to require the collection of data on the disposition of non-mortgage loan applications similar to the regimen used in the Home Mortgage Disclosure Act. You should change the CRA to subject institutions failing to meet market share targets among the unbanked and the under banked to a higher degree of regulatory supervision. You should change the CRA to include incentives for top performers, such as rights of first refusal for the acquisition of banking assets and the acquisition of banking assets on favorable terms. You should change the CRA to reduce the value of community based activities for CRA rating and evaluation purposes over time in favor of meeting market share targets among the unbanked and the under banked and mainstreaming the market segments. Thank you very much.

[Applause]

Rob Breymaier:
Thank you. My name is Rob Breymaier; I'm the Executive Director of the Oak Park Regional Housing Center and the President of the Chicago Area Fair Housing Alliance. I want to focus

today in my oral statement on one very necessary and urgent issue to improve the CRA Act and that is to make race explicit in the CRA Act, to use racial analysis in the CRA Act.

The omission of an explicit racial assessment in CRA has resulted in regulation that has allowed financial institutions to ignore the racial impact of their products and services, except in cases where fair credit or an equal credit violation may occur; and what has resulted is a dual credit market and financial services market that's been very difficult, expensive and only has reactionary tools to hold large corporations accountable for their actions and communities of color. Predictably, this has meant that minorities have had fewer banking options and higher barriers to credit; and is especially true for African-Americans and Latinos who suffer in the second class status exacerbated by patterns of segregation.

Many studies have shown that regardless of income and wealth which the CRA Act does explicitly look in to, African-Americans and Latinos are often offered less advantageous products and services. Frequently studies show that even low income whites are receiving better products and services and have more access to those services than upper income minorities. In particular, a study by the Woodstock Institute and many other organizations found that prime lending to white communities during the period of 2006 and 2008 showed that minority lending was decreasing at more than twice the rate it was decreasing in white communities for prime lending, and refinancing, it was decreasing almost five times the rate of white communities and minority communities, and that alarmingly this trend was much, much worse in the nation's four largest banks where actually lending was increasing for white communities and decreasing for African-American and Latino communities.

This failure in the market is a failure that actually is established earlier by the Homeowner's Loan Corporation and the Federal Housing Administration, which were federal programs; and therefore we believe the federal government and its regulators have a duty to insure that race is included in CRA evaluation.

Furthermore, it would be of even greater value if the CRA explicitly promoted opportunity-based activities that affirmatively furthered fair housing and promoted regional equity and access to opportunity. This should include incentivizing grants and investments that would promote affirmatively marketed low income housing for predominantly white and middle class communities, small business investments in communities of color and support of financial services that reduce the income and wealth gaps between white communities and communities of color. This would insure that regulators are complying with the Fair Housing Act by affirming fair housing rather than investing in projects that may perpetuate segregation and concentrations of poverty in low income neighborhoods.

Thus, CAFHA urges both legislative and regulatory action to the extent possible to secure the inclusion of race in the modernization of the Community Reinvestment Act.

[Applause]

Robin Coffy:

Good afternoon. My name is Robin Coffy, and I'm the Assistant Deputy Director at Neighborhood Housing Services of Chicago, a CDFI providing a variety of services, including mortgage loans to low and moderate income communities in Chicago and Elgin, Illinois. I am also a board member of the IFF, another CDFI which provides below market lending and real estate consulting and development for nonprofit corporations within Illinois, Indiana, Iowa, Missouri, and Wisconsin. Prior to my current job, I worked for over 22 years as a community development lender, investment officer, and a CRA officer for a $23 billion regional bank headquartered here in Chicago.

The time spent as a CRA officer taught me many things, including how difficult it was to continue to proactively seek out community development opportunities while, at the same time, maintain the market share numbers needed to pass the lending test. The CRA exam cycle became a numbers game as we strove to keep up with the larger players with whom we were measured against. I'd like to address my comments to one particular question: Should geographic scope differ for institutions that are traditional branch-based retail institutions compared to institutions with limited or no physical deposit-taking facilities?

Maintaining a traditional branch bank's focus on the community where they are located is important. A bank with one main operation center and several branches within a community is different from a bank within a multiple state footprint with a headquarters and operations centers in a distant state. The argument that the local bank staff can perform the work needed to serve the low to moderate income needs of the community belies the fact that the local branch staff does not control the bank products or the loan offerings. They sell what the main office gives them, and they sell the loan inquiries to another location. The CRA examiners seem to reward this product line consistency, as long as the bank is not discriminating in its offerings.

For large banks, currently 25 percent of their grade is determined by the community development activities. Community development lending and investments are usually done by a core group of highly motivated and trained individuals who do not always reside in the community that their branch office is serving. They rely upon national intermediaries and their own community affairs staff to point out opportunities. This leads to a one-size-fit-all model for communities which are outside of that home base and make it difficult to serve the needs in particular low to moderate income communities unless you can find a way to replicate that and make it attractive to bring it to scale.

The CRA exam tends to reward innovativeness that a bank achieves when its headquarters location does things while downplaying their absence in communities where acquisitions have left them with a branch staff that is no longer able to participate with community loan funds or entry level deposit products that were developed to serve a specific need. An updated community development test should allow and encourage traditional banks to extend their community development expertise to have a qualitative impact upon community needs. Thank you.

[Applause]

Karen Harris:

Hi my name is Karen Harris and I'm with the Sergeant Shriver's National Center on Poverty Law, which is a law and policy advocacy group that focuses on ending poverty and social injustice. We applaud your intentions to improve the CRA; however, regulatory action alone is not enough. We therefore encourage Congress to pass the Community Reinvestment Modernization Act of 2009, H.R. 1479 in addition to the Regulatory Reforms discussed at today's hearing.

A more thorough discussion of Shriver's Center's recommendations are contained in the written comments we submitted. However, in general for CRA to realize its full potential the following reforms are needed. Many of these have been discussed already so I will keep it brief and to the point.

Number 1, expand assessment areas and mandatory inclusion of minority and mortgage company affiliates. The definition of assessment area must be expanded to include loans made outside of the currently defined boundaries; and banks must be required to include their non-depository affiliates on CRA exams, in order to ensure that such lending affirmatively responds to credit needs and safe and sound manners.

Number 2, directly examine lending to minorities. Bank lending to minorities must be explicitly reviewed on CRA exams to insure that banks are affirmatively making loans to such populations and not excluding them.
Number 3, revise CRA exam ratings, scoring and waiving. An expanded and comprehensive scoring methodology must be implemented to provide meaningful comparison of banks, CRA activities and great inflation must be addressed.

Number 4, Data collection enhancements. Data collection including information on small dollar lending as an alternative to payday loans and efforts to provide access to affordable financial services for the un- and underbanked must be incorporated into CRA evaluations to ensure that the most vulnerable populations are being reached.

Number 5, small dollar lending an alternative to payday loans are something that should be focused on. The recent Wall Street Reform Legislation included in it a lost reserve fund to encourage the creation of affordable small dollar loans. CR regulations and agency guidance should provide templates for the characteristics for responsible small dollar loan products.

I appreciate the opportunity to comment on the agency's regulations and we all look forward to working with you to develop and improve CRA.

[Applause]

Calvin Holmes:
Good afternoon. I've got good news for you. I'm number 13.

[Laughter]

Calvin Holmes:

So we're almost halfway there.

It's a pleasure to be here. My name is Calvin Holmes. I am the Executive Director of the Chicago Community Loan Fund. We're a midsized certified CDFI serving six-county metropolitan Chicago. We're one of the more flexible community development lenders supporting primarily housing, community facilities, and commercial real estate development. We're best known for our predevelopment financing, and I'm proud to say that we've nearly leveraged a billion dollars of public and private financing into low wealth communities around the region.

I thank you, regulators, for conducting these hearings. And to avoid being redundant, I want the regulators and our stakeholders to know that we stand with our partners, Opportunity Finance Network, National Community Reinvestment Coalition, Woodstock Institute, Community Reinvestment Fund, Housing Partnership Network, and many others, specifically regarding the need to redefine and expand the CRA -- sorry -- CRA assessment areas, rethink the community development test, and apply the law to bank affiliates. Given that many more broad community development issues have already been covered, I would like to specifically address how enhanced CRA implementation can help CDFIs serve their customers and our communities at a time when many have far less access to capital.

As you know, CRA has worked fairly well over the past 30 years. The CRA managers at the banks that we work with have been fine supporters in facilitating this work, and CDFIs have proven over the years to be sound and profitable partners for banks. However, market conditions and competing corporate objectives have recently resulted in a less than ideal situation for CDFIs working with banks. I tender three recommendations. None of them are easy, but they are all critical.

As a midsized CDFI, we survive on our ability to attract investors with low pricing -- who give us low pricing. I don't think I can call it low pricing anymore. I'm sorry. I don't think I can call it below pricing, below market pricing anymore because we're told that the higher rates that we're getting are below market. In the current economic climate, CDFIs throughout the country are seeing the cost of our available capital rise to unsustainable levels. Going forward, we need CRA application to encourage banks to offer low-cost, long-term investments to CDFIs so that we can continue to offer flexible technical assistance, supporting community development.

The other area is equity equivalent investments, which is a deeply subordinated investment vehicle that stays on our books for a long time and allows us to do some fairly transformation lending like predevelopment. As Ellen Seidman and Warren McLean said earlier, we need that kind of a capital structure to provide the kinds of innovative financing that we do to our community partners. We need for banks to understand that we are not as risky as we are perceived. We've had a cumulative maximum 2 percent default rate, even going through this year. So their capital market areas should not risk price us in an unrealistic way.

By encouraging banks to offer truly low-cost investments, subordinate investments, and other credit enhancements, we can greatly increase the ability of CDFIs to stabilize and expand economic opportunities in disadvantaged communities. In closing, I thank you for your effort to make CRA more effective and relevant; and I also encourage you to step up your effort to enforce CRA today. We need that. Thank you.

[Applause]

Jean Ishmon:
Good afternoon. My name is Jean Ishmon. I'm from Northwest Indiana Reinvestment Alliance, and I'm also a board member for the National Community Reinvestment Coalition. I've been in the field of fair housing and fair lending for about 25 years, and our agency has relationships -- some good and some bad -- with lending -- our lending institutions, as well as our regulators at least -- for at least 21 years, we've been involved in this.

When we began to monitor HMDA data and CRA evaluations, oftentimes, there were needs for us to supply written comments and letters to the lenders and request that they put -- be put into their CRA files. When regulators came out to the institutions, they would contact our agency and discuss the comments and our relationships with our banks. For at least 10 to 15 years that I can recall, I've only had maybe two of those calls. I've only seen at least two regulators that came through or talked to them about the conditions of what's going on in our communities and our neighborhoods.

We need the regulators to get back to the -- to the basics and do their jobs, simply. Allow community groups to participate in the process. In Northwest Indiana, we have a Bankers Community Council that meet on a quarterly basis. We come together to share programs and projects that are being provided to residents of Lake County, Indiana and how the lenders and community groups can come -- can work together. The alliance banking community -- the banking community -- I'm sorry -- meets with each -- with each of our lenders on a yearly basis to discuss HMDA data and their evaluations. We don't wait for the regulators to contact us anymore. We call them.

In addition, we have hosted meetings with the regulators, banks, and our community groups. And, during those meetings, the question was asked by a bank: Why is it that the safety and soundness examinators [phonetic] who handle risk, economy, and lending standards come out to monitor -- they come out to monitor. They ask them, you know, why are they making loans in low and moderate in communities -- income communities. And, then, the compliance examiners come out and they tell them to get credit to everyone, including the low and moderate income communities. The -- excuse me -- the banks went on -- the bank went on to say that the CRA officers -- to the CRA officers that were present, It seems that these two departments seriously disagree in-house. And that affects their performance, as well as ours, as a result. These departments do not talk to each other and seem not to really like each other. They need to stop.

[Laughter]

You know, they need to stop. We need them to be on one accord and just simply do their job. Lastly, I agree with the National Community Reinvestment Coalition that the assessment area or the geographic -- and of the CRA exam must cover the great majority of bank loans. Thank you.

[Applause]

Bob Jackimowicz:
Good afternoon. My name is Bob Jackimowicz. I'm a policy advisor to the Cleveland City Council. Purpose for here -- purpose for being here today is to talk about the trends that are occurring in Cleveland in regard to -- that relate to CRA. And I want to say right up front I'm in full support of the comments that Frank Ford made here, because it's a critical issue in regards to city policy, city activities as it relates to neighborhood investment.

Ours is not a problem so much of a credit issue right now, although Cleveland has had a long, successful history of community development corporations working in conjunction with local banks. We've been nationally known for that. But the problem for us is because of the foreclosure crisis, in regards to not only local lenders but all the various lenders, regulated or not regulated, operating in Cleveland is the post-foreclosure, post-REA issues that have come up in trying to deal with these problems. The scale of it is such that, in the last two years, we've approximately 14,000 foreclosures. We estimate at this time we probably have another 9,000 homes at risk in regards to the various types of financing mechanisms that they have.

So we're looking ahead in terms of what the problems are going to be. The opportunities for renegotiating loans as a result of foreclosures have been very, very limited. The city's put a tremendous amount of resources into this by assisting and funding nonprofit corporations to provide for counseling. Our court -- local court system has tried to address that issue by instituting a mediation process with some limited success but has not seen the turnaround by the lending community reducing the loans that are workable to many of the families who could stay in the house. Nonetheless, the homes go into foreclosure and create even more problems in regards to vacant and abandoned housing for the city.

To kind of illustrate that, in 2005, the city boarded up 2,235 homes. In 2009, we've boarded up approximately 5,000 homes. The recent NSP funds that were made available to communities in light of the foreclosure issue, over 60 percent of our funding was geared for demolition. We just have so many vacant homes there that the only way we can retain local real estate values is to get the worst homes out and many that are not condemnable but are -- it's officially run down where they continue to drag down existing real estate values. Somebody asked a question earlier to Frank in regards to the suggestions that he made, would that limit lending. And I would contend it would not. In regards to being able to stabilize the existing values that we have for our homeowners who invested by getting rid of the stuff and forcing the banks to follow through with the foreclosure process, which they are not, would help stabilize those values greatly for us. Thank you.

[Applause]

Kevin Jackson:
Good afternoon. Welcome to Chicago. I am Kevin Jackson with the Chicago Rehab Network. I've been the director for the last 15 years. The Network is the Midwest's largest coalition of CDCs and housing advocacy organizations. It was founded in 1977 coterminous with passage of CRA, and we were involved with the late gale Cincotta and others in setting up the neighborhood

lending programs here in Chicago that ran through the '80s and just recently, in this era, fell apart. And that's where there was this large community engagement, in fact, people have been asking for in terms of working with financial institutions and reviewing what really fits appropriately at the local level.

I'll summarize my comments here, because I know you've been hearing a lot. And I want to cut right to the chase. An important consideration in your deliberations today about reforming CRA regulations should include a local accountability to local communities which remains fundamental with our experience with what works and should receive a special weighting in your review of regulatory reform. That special weighting translates into our recommendations for new consideration in the highest regard be placed on innovative and sustained efforts for community development lending.

Community development lending should be an independent test for CRA. In particular, we recommend increased accounting in four areas: One, dealing with foreclosures with particular weight given for effective disposition of REO properties, not including demolition, however; and programs that keep owners in their homes. Two, lending to multifamily rental development with particular weight given for properties with three or more bedrooms to serve families. Three, lending through preservation of existing rental housing that leverages and safeguard our public investments with particular weighting for the investments that transfer the public assets to preservation purchasers. And, four, supporting the capacity of nonprofit mission governed organizations, the CDCs that are locally or constituent-based that represent the best on-the-ground link for sustainable neighborhoods. Focusing on community development lending in these four direct ways will upgrade CRA and reinforce the success of investing in low and moderate communities. Such a focus recaptures the aim and purpose of CRA: to extend credit and investment to build people's lives.

[Pause]

Kevin Jackson:
Over the last decade, the real estate market and investment practices required oversight. And the lack of such has harmed families, communities, and the larger economy. The impact on our communities and to low and moderate income households of color have been akin to a football game without any referees. We need government to, if not level the playing field, to at least shine a light on what is working in community development and what is not. The high cost of not getting this done right leads to displacement and disinvestment. Thank you.

[Applause]

Gerald Johnson:
Good afternoon. I am Gerald Johnson, President of the First National Bank of Grand Ridge in Grand Ridge, Illinois. First National Bank of Grand Ridge is a national bank with approximately $35 million in assets with one office. I am the Illinois District 1 State Director for the Independent Community Bankers of America and serve on the Community Bankers of Illinois board. I have 30 years' experience as a bank officer.

The First National Bank of Grand Ridge is classified as a small bank under CRA and received a satisfactory rating from the office of comptroller and currency back in March of 2008. As a $35 million community bank, I have approximately $10 million in loans consisting of agricultural, commercial, consumer, and 1 through 4 residential loans. In total, I have 279 loans on my books. My delineated community encompasses eight mile radius surrounding Grand Ridge. The First National Bank of Grand Ridge has been in operation for over 107 years. We continue to reevaluate our agricultural lending due to the cyclical nature and impact on the risk tolerance. Making mortgage loans to hold in our portfolio posed an interest rate risk. Because we have so few loans per year, whether the loan resides in or out of our delineated community is a CRA factor. The loan size is a factor. Urban areas are out of our delineated area community. But they have greater values and collateral along with higher and more stable incomes, making one $180,000 loan in an urban area can be the same dollarwise as making three loans in Grand Ridge utilizing the same type of collateral. These high dollar loan -- high dollar out of community loans can become detrimental to our CRA rating.

Grand Ridge is a mature community. It has more deposits than loan demand. For more than five decades, its population has been stable and housing construction has been nonexistent. In the past few years, our customer flight to safety and into insured deposits have increased the bank's deposit base. This, in turn, drops the loan deposit ratio, which is a factor to our CRA rating. There are very few qualifying municipal investments within my marketplace to meet CRA credits. Our bank serves the community with deposit, lending, and other banking services. In addition, we play a key role to many civic activities. The First National Bank of Grand Ridge bank staff have served on school, village, county, fire district, and United Way boards. We have served as treasurers to many organizations. We donate time to community activities in numerous not for profit groups. CRA is still by [inaudible] regulation scored by loans. The giving of time, especially a combination of personnel and corporate time, should become another major mitigating factor. The records requirements necessary for documentation and proof in complying with CRA have changed much over my banking career. When our bank was $12 million in assets, compliance with CRA was much more inconsistent and time consuming. Keeping CRA compliance simplistic with minimum documentation, recordkeeping is essentially for banks. As our bank continues to grow and utilizing new banking technologies, our delineated community will change. Internet and mobile banking can expand our client base and we'll compete with much larger institutions. I thank you for the opportunity to give presentation.

[Applause]

Trinita Logue:
My name is Trinita Logue, and I'm the President and CEO of IFF, a nonprofit community development financial institution created 23 years ago to provide below market loans to a broad range of nonprofit corporations locate and serving low income communities. We work in urban and rural areas across five Midwestern states.

CDFIs are ideal partners to banks in both good and bad times. And this was envisioned when the CDFI program was designed. The first panel this morning did a terrific job of setting the stage for returning to substance over form in CRA without going back to the twelve assessment factors. Examiners narrowly define today the compliance role, and most bring little or no knowledge of CDFIs to their work anymore. Paperwork is overvalued; and the work done by Congress, the Treasury department, and the President to build the CDFI industry is undervalued and, in some cases, unrecognized.

Comprehensive community development is a term we have heard a lot today. We are also hearing the word "innovation" and the term "service test." How can we define these? Let's look to our President for the answer. Mike Mantle said this morning that we should look to public trends, and my prepared statements suggests exactly that. The President understands CDFIs, our role and our structure. He has begun the high-impact process of providing strategic funding for CDFIs in several government departments to ensure successful implementation of new initiatives while also challenging CDFIs themselves to step up and do more with their specialized capacity. The President's actions reflect the understanding that CDFIs are expected to look at markets holistically while building products that are financially successful and will supports jobs, health, recreation, education, family support, and even transportation, and then go even further and try to connect these together.

For 25 years, we've built the capacity of CDFIs to do just this, and this is what is meant by comprehensive community development. But the close CRA link to banks has broken down. The strong three-part foundation -- government regulation through CRA, private bank capital, and CDF local knowledge and risk capacity -- is not just a strong structure but it's an expandable one. And it's replicable across sectors, geographies, and size of need. This same three-part model can be used to finance rural health clinics and can be used to open dozens of charter schools in urban neighborhoods.

The President's emphasis on place-based initiatives in areas of high need for jobs, health care, access to healthy food, energy conservation, and economic growth is exactly where we should be looking for guidance on how to link -- how to think about extra credit on CRA exams. Coordinating the new public investment to leverage private bank investments all within and through a CDFI will mirror the administration's roles that are playing out in health care with funding for new health clinics; in education with the Promise Neighborhoods; and in nutrition with the Healthy Foods Financing Initiative.

We have before us a great opportunity to stop thinking of CRA in isolation and only as a compliance matter and start thinking about how to link it to community needs as they are reflected in today's public policy. The administration has set the stage for social policy that leaves no one behind, and we've all worked to build a CDFI industry to help spread risk. Please bring back -- banks back to full partnership with us to meet the challenge of comprehensive community development. Thank you.

[Applause]

Otis Monroe:
Good afternoon. My name is Otis Monroe. I'm President of the Monroe Foundation. We are a nonprofit community development organization that promotes community partnerships in Greater Chicago. I will speak to recommendations to the investment and service test of the CRA examination.

The Monroe Foundation recommends that service test of the CRA evaluate how financial institutions participate in and offer products and services that promote alternative to payday title lending products which remain a dominant consumer lending product in low-moderate and low wealth communities, if you will, which has been utilized by families legitimately to address real life financial emergencies and gaps between paydays where these applications where payday and title lending in these very same communities where banks have a presence in LMI low wealth communities as well has increased as a result of diminishing personal and family incomes. The recent piloting of the small-dollar loan program by the FDIC was an excellent opportunity for the financial institutions with a branch presence in an LMI community to have participated in this program's consumer lending product that addresses a legitimated consumer need that can also promote financial services, access to checking and savings accounts.

Unfortunately, in Illinois only two institutions participated in the pilot program. None of them were institutions with branch locations within LMI communities in the city of Chicago. Our recommendation is as follows: When an institution that has a branch or branch locations within an LMI community and has been unable or unwilling to participate in consumer credit products, such as those offered by the FDIC recently or those proposed by community organizations and community partners with this concern to develop some of the products and services, then the financial institution should receive a grade consistent with such a decline to participation or inability to offer a product similar in scope directly to LMI communities where such a need exist. Further, we support recommendations by the National Community Reinvestment Coalition, Woodstock Institute and others to revise the CRA grading structure that will allow for grades of low satisfactory or low good that would be consistent with this kind of missed CRA quantifiable opportunities by regulator financial institutions instead of supple grades of satisfactory or good. The current grade system rewards banks for their best efforts that often were not truly their best efforts to meet the credit needs of their markets and those of their consumers.

Our recommendation in the investment test: The economic backbone in many urban and rural communities in Illinois and in America are mom-pop business owners often storefront operations hiring locally and dependent upon by many for the basic needs of life in these communities, particularly communities that here in Chicago are returned as full desert. We recommend the following: We urge the CRA to evaluate how SBA-approved lending institutions are developing, marketing and investing in the expansion of micro enterprise programs or how those institutions are working with community and economic development groups to create access to micro enterprise lending and support the expansion or creation of technical assistance intermediaries that can help struggling "mom-pop" companies access micro enterprise small business lending opportunities. Thank you for your time.

[Applause]

Alejandro Orozco:
Good afternoon. My name is Alejandro Orozco I work for Bankers Trust in Des Moines, Iowa. We wish to come in on four specific areas that our regulators asked feedback about.

First of all, the current requirements for defining an assessment area under geographical coverage of banking services requirements should not defer between institutions of different business strategy for delivering banking services. The most significant part of CRA is to ensure that the earnings from depositors are returned back and invested in the low and moderate income communities where depositors and borrowers reside. Other considerations should not deviate the regulators from applying the same lending service and investment requirements to all deposit institutions. With regards to access to banking services, our institution established a small-dollar loan program for low income individuals with good credit history as an alternative to high cost debt such as maybe lending.

After one year and a half of implementing the program the percentage of loans reported as charge ups was over 30 percent. We believe the cost of this default adds to a communication with our partner organization was a lack of a capacity and resources by our partner organization to provide financial education, budgeting and support to the borrowers, a block of appropriations under the CRA could allocate competitive grants for NGOs and communities providing financial education as a component of a small-dollar loan program or as a component in other community wide initiatives to provide meaningful financial education.

HUD Community Block Grants for first time and low income home owners do not provide sufficient funding to sustain thousands of hours educating people with no access to credit, nor banks have the resources to fund these activities in their entirety. Another alternative supported by the FDIC after analysis of its small-dollar loan pilot program is establishing pools of governmental and private funds to serve as guarantees to these loans. These will require legislative action but is well needed for making banking services more readily available in low income communities.

As for ratings and incentives, the regulatory definition of community development could be broader by defining with precision what essential community needs means and its representative evidence during examinations. With regard to these closures and performance evaluations currently, the agencies use asset and deposit size, number and location of branches, size of assessment area and other indicators that will identify similarly situated institutions for performance context and comparison in CRA exams.

However, there are instances where none of the peer institutions in an assessment area are actually comparable to the institution or the examination. An examination will proceed and assess the performance of an institution based partially in comparison to the performance of other institutions with significant differences. These and other subjective interpretation of performance indicators should be avoided in public evaluations in order to maintain clear compliance measurements and enhance clarity for CRA requirements.

[Applause]

[Pause]

Hedy Ratner:

Good afternoon. I'm Hedy Ratner with the Women's Business Development Center and thank you for this opportunity to present the issues so important to the communities in your region. My particular interest as a Co-President of the Women's Business Development Center is on the growth of women and minority on businesses. My organization, the Women's Business Development Center in collaboration with other minority and women's business organizations support the National Coalition, the Woodstock Institute and the Illinois Community Investment Coalition's recommendations on the need for new CRA legislation. Our organization has a continuing commitment to investment in low and moderate income families, businesses and neighborhoods through business development and specifically efforts to provide desperately needed access to credit in these communities. We provide counseling, training, financial assistance, strategic planning, and we are the oldest and largest women's business assistance center in the country, helping over 60,000 women and minorities develop, sustain and grow their businesses. Many of the community groups talked about collecting data on the basis of race. I want to be sure that we're talking about race and gender because that is a critical issue for all of us in our women's business community. The recommendations that we are making is that the community we invest in net must be modernized to be effective in this decade, in this millennium, in this economic environment. This can best be done from more appropriate new legislation rather than through regulatory change. Most of us have come up with very similar recommendations. I will elaborate just briefly.

Expanding the scope of CRA to include other financial institutions: Credit card companies, mortgage companies and brokers, insurance companies, securities companies, and mainstream credit unions. Financial institution should invest where they do business. Assessment areas should be defined as any state, metropolitan area, or rural county with that institution maintains a retail office or as represented by agents. Improve compliance incentives and ensure investment obligations are applied consistently. Improve ratings transparency and expand and weight the ratings to more appropriately reflect compliance with CRA, as well as safety and soundness. Increase opportunities for public comments, for mergers and acquisitions to ensure that the community continues to be served and our voices are heard by the acquiring financial institution. Improve the CRA's services tests, banks should disclose and regulators should consider information on account holders and accounts. And especially from my perspective, expand small business data disclosure requirements to include race, ethnicity, and the gender of our borrowers. And to increase the focus and reward financial institutions that provide products and services that stabilize communities with activities that create jobs, provide financial education and fuel economic growth. This is a very timely window of opportunity. Our organizations and hundreds of community and economic development organizations agree that the CRA act needs to be expanded and modernized.

[Applause]

Elisabeth Risch:
Good afternoon. My name is Elisabeth Risch, and I work at the Metropolitan St. Louis Equal Housing Opportunity Council. We are a nonprofit fair housing organization that works in the Metropolitan St. Louise area. We started working with the Community Reinvestment Act a couple of years ago in our banking research, and based on the wide racial and income disparities we found, we convened the St. Louis Equal Housing and Community Reinvestment Alliance

known as SLEHCRA. We are now a coalition of 14 non-profit organizations that throughout the past year has been regularly submitting public comments, letters on banks' CRA performance evaluations and applications for banks operating in the St. Louis metro area. Our organization has four recommendations for the improved CRA regulation that are particularly relevant to our work in Saint Louis today.

First off, the assessment areas of institutions on CRA exams must be expanded to include the geographies where the bank is doing a significant amount of lending based on their market share. In St. Louis, geographical disparities within banking services have been and continue to be a significant issue of concern. For example, the city of St. Louis is a separate county from the St. Louis County and includes more of the low and moderate income communities in areas with high minority populations. We have a number of cases where banks completely exclude the city of St. Louis from their assessment area while including the surrounding higher wealth and mostly white counties, even when they're doing a significant amount of lending within the city. One such case appeared to draw the line of their assessment area in a bowtie that excluded most of the predominantly minority in low income areas. The regulatory agencies cannot accept this gerrymandering to avoid serving the low and moderate income communities.

Second off, the CRA regulation needs to include the consideration of service and lending to minorities. The fair lending tests while helpful in identifying some discriminatory practices does not account for an institution's lack of service to minorities. St. Louis has a banking atmosphere that has continuously excluded minorities. There are widespread disparities in terms of bank locations, assessment areas and lending for minorities. Many banks have lending percentages well below the aggregate performance and taken on a hold the aggregate data shows inadequate lending.

Third, banks have consistently received satisfactory ratings on their performance evaluations when it's clear that not all banks in St. Louis are meeting those satisfactory standards. For example, one bank that we referred to the Department of Justice because they had not originated a single loan to an Africa-American in the past five years was still receiving satisfactory ratings. The bank within an assessment area that resembled a bowtie was also receiving satisfactory ratings. And we discussed them with our--our concerns with the regulator about the assessment area, we were consistently told our regulator approved it. We discussed it with the bank, sorry. We recommend additional ratings, harsher scrutiny and more rigorous exams for all banks.

Finally, as a relatively new coalition working on CRA issues, we have been frustrated with some of the regulatory responses to our public comments. We would like to regulatories to engage with community groups in a meaningful and transparent way throughout the process of CRA examinations. We ask the regulators to defer processing of bank applications during a fair lending investigation by HUD or the Department of Justice and we recommend that the regulatory--the regulators include a substitution for summary of public comments within the bank's performance evaluation. We applaud and encourage you and you're rule making for a stronger CRA, and I thank you for the opportunity to speak today.

[Applause]

Gail Schechter:
Hi. My name is Gail Schechter. I'm the Executive Director of the Interfaith Housing Center of the Northern Suburbs which is based in Winnetka, Illinois. We were founded in 1972 with roots dating back to the Civil Rights Movement, and we're the Chicago areas only grassroots and faith based fair in affordable housing advocacy organization. We're a qualified fair housing enforcement agency and we're also a HUD certified housing counseling agency.

Regulators are correct to review and update current regulations, which are based on a two-primed problem that gave birth to the CRA. The lack of access to capital in low income areas which is, you know, the answer to redlining. And then the second is addressing fair lending. But the answer to today's neighborhoods have boarded up abandoned homes is not identical to the answer following the devastation of neighborhoods often the same ones following the race riots in the late '60s. Although an obvious response is financial investment, a Marshall Plan of sorts to rebuild neighborhood economies and family wealth, in 2010 this is overlaid by a more sobering reality, an extreme divide between the rich and the poor on the part with the 1920s. A recent Brandeis University study finds that between 1984 and 2007 the racial wealth gap between whites and African Americans quadrupled to over $75,000 and note that 2007 is before the current recession.

In short, public policies that address poverty and race today where they are place-based such as the CRA must not only "do no harm" in terms of not exacerbating blight and disinvestment but must act in sync with other policy priorities designed to whittle away at the income gap both by neighborhood and by racial group. Otherwise turning around these neighborhoods to programs like HUD's Neighborhood Stabilization Program can have the unintended consequence of further entrenching racial segregation. Predatory lending thrived on the guys of fair lending and community reinvestment, although largely unregulated to maintain the look of that easy target neighborhood, a recipe that involves making the de facto low income homes de jure affordable could result in a ghetto.

So Interfaith argues that the CRA coupled with strong enforcement of affirmatively further in fair housing laws should require quid pro quo. If you're gonna do development or invest in development in low income neighborhoods maybe you do not a hundred homes all segregated in the low income neighborhoods. Maybe you do 75 homes, do 60 in the low income neighborhoods and another 15 in the higher income white areas so that you further would fair housing goals. So the extent to which community development loans to these neighborhoods are directly matching some formula to affordable housing stable neighborhoods and must be considered.

In short, the CRA today has to be about interconnection and mutuality not about a surgical approach to community development. Thank you.

[Applause]

Jeremy Smith:
Good afternoon. I'm Jeremy Smith with the Service Employees International Union, SCIU. I'm here today on behalf of 2.2 million janitors, nurses, home care providers, child caregivers,

security officers and public servants that SCIU represents across the country, many of whom have suffered tremendous hardship as a result of the financial crisis. Our members live in communities where the Community Reinvest Act has played an essential role in promoting economic growth and development for decades. So I'm grateful for this opportunity to testify on their behalf.

SCIU believes that a modernized, fairly applied, and strictly enforced CRA can help prepare neighborhoods devastated by foreclosures, support quality job growth and aid our economic recovery. CRA has an impressive record of improving access to fair and affordable financing in the communities in which it's enforced. We urge you to modernize the regulations so that all working families are able to benefit from its provisions. I will focus briefly on four recommendations.

First, as everyone in this room knows and as we've discussed today, the banking industry has changed dramatically. Banks should be required to meet CRA's affirmative obligation wherever they or their affiliates do business, not just where they capture deposits or maintain a headquarters. The millions of Americans who live in markets served by bank-owned mortgage companies, investment banks, credit card divisions or companies or online financial products deserve the same protections as those who live in places served by branch locations.

Second, the financial crisis demonstrated what we have known for some time in which many commentators have already noted. That predatory lending based on race is real. And that it has disastrous consequences. We recommend that regulations should be modified to include a formal review to ensure that banks are not excluding racially diverse or minority areas so that people of all ethnicities and backgrounds have access to safe financial products and services.

Third, CRA can be a powerful tool for creating and sustaining broadly shared economic growth. To enhance this role, the CRA regulatory framework should subject large institutions to a community development test, which would guide bank activity and emerging markets and explicitly emphasize bank initiatives that have a substantial economic impact. In addition to lending and investment tests, banks would be evaluated on their ability to offer differentiated products and services, often in partnership with community-based partners like the Community Development Financial Institutions in markets that still remain underserved.

Lastly, we recommend that a more rigorous review of the quality and impact of small business and community development lending be included in bank assessments. While commercial lending is more varied than mortgage lending, basic data on the type of credit extended and the number and type of jobs created could significantly improved reviewer's evaluation of bank activity. Revising CRA regulations is key to revitalizing communities and millions of working Americans who were hit hardest by the economic crisis.

We must ensure that CRA is enforced in the broadest and most creative manner so that families and neighborhoods that lost so much hard-earned wealth from the crisis are a primary focus for future investments that will restore local communities. Thank you.

[Applause]

Romona Taylor Williams:
Last but not least. Good afternoon. My name is Romona Taylor Williams, and I am the Executive Directive for Metro Saint Louis Coalition for Inclusion and Equity. And we call ourselves M-SLICE. It is an honor--And it is an honor and I'm thankful for Dr. Timothy to speak to you this afternoon about CRA and its significance to creating equitable and livitable--livable and sustainable low to moderate income communities.

In particular, my purpose here today is to relate how CRA will play a major role in the president's Sustainable Communities Initiative, SCI, that focuses on regional planning and development around housing transportation and energy. A key component of SCI is the planning and implementation of development strategies must be conducted in an equitable and inclusive manner throughout the entire process. The importance of CRA in the redevelopment in low to moderate income communities as specifically urban and communities of color cannot be--oh, can might be over stated.

Needless to say, historically, the community reinvestment act has been the most treasured asset and friend to low and moderate income communities and the organizations that work to improve them. However, as in life, the time comes when we must conduct personal assessment to see if we're meeting our personal and professional goals. It is now that time to reassess CRA to analyze its weakness and strength and determine as an industry how it can be improved to better served its original intent. The weight of an urbanism and smart growth enthusiast had shifted the landscape of urban development. Baby boomers who are now empty nester and no longer in need of mega houses, four car garages, and three acres lots and find downtown living more palatable.

Environmentalist in their quest to curve urban sprawl and reduce the carbon food perimeter, are finding solace in traditional urban neighborhoods. Historic preservationists are flocking to the inner cities to take advantage of declined property values, properly tax abates--abatement incentives and to save our national treasures, while local jurisdictions are struggling to increase the tax abates and stand ready to maneuver unprecedented--let me have some glasses on here—

[Laughter]

-- to maneuver unprecedented tax credit deals for wealthy developers who promise unsubstantiated jobs and upscale redevelopment that often result in mass exodus of the indigenous residents. As the result, CRA has become in many instances a foe rather than a friend to low and moderate income communities and communities of color. Developers readily take advantage of these communities by using socioeconomic demographic data gleaned from that census to justify blinding and subsequent tax incentives such as TIF, increment financing.

Banks subsequently invest in these development projects because their hostile appeal for CRA investment is--in targeted low income census tracks but not necessarily in the low income people who live in there. We foresee this practice escalating as communities across the color gear up for the sustainable communities initiative that purports the fused livability principles into a cache of housing transportation and energy development. Some may well view SCI as a euphemism for 70-style urban renewal as buzz words like transit oriented development, renew memories of failed urban renewal practices. The Saint Louis, MSA is a prime example of current urban planning and redevelopment trends. In north--In particular, the north side, the community where I live. And I'll shift my comments briefly to a personal perspective.

As a season community and economic development practitioner upon my arrival to Saint Louis in January 2006, I readily realized the absence of an equitable community reinvestment system in North Saint Louis. The housing stock was severely deteriorated with no evidence of building code enforcement. Payday lenders were as prominent as liquor stores and churches, little to know affordable housing development had taken place in years, say, for HOPE VI projects, community facilities were outdated and more surprisingly there were no community development corporations engaging in traditional community development activities. You see, since 1975, the north side experienced strategic and systematic divestment and response to a plan known as the "Team Four Plan." The following statement is taken from the introduction of the document. The plan, in fact, does not so much team four in its plan. As it is, the plan of the city fathers in the big business entries they represent. In November 1973, two bills were proposed to the Board of Audit made by two gentlemen. The bills--The two bills were designed to preserve 74,000 buildings on the south side by destroying 70,000 houses in North Saint Louis. The bills clearly deemed as stated that the north side where the great majority of Saint Louis black population lives to be an insignificant residential area not worthy of special maintenance efforts. Throughout the north side, we can see the result of this philosophy of abandoned buildings and deteriorating north neighborhoods. Already fire boxes have been removed. Street cleaning has been decreased and other city services have been cut.

Although the city never officially adapted to Team Four Plan, the recommended suggestions of depleting the housing stock by 75,000 units and the denial of the central services were implemented. Thirty plus years later, the north side today resembles Bombay route and the current socially--socioeconomic indicators are comparable to third-world conditions. The local banking community was surely a part of those big businesses. The city founder represented and subsequently played a major role in the demise of the north side. Even after CRA's enactment, local banks failed to invest, lend, and provide services in the north side of Saint Louis. And although there are branches receiving deposits from the communities, physical and social environments are indicative of gross despair treatment in lending and investment.

I began meeting with Mira Tanna, Deputy Director of Metro Saint Louis Equal Housing Council, EHOC, the fair housing agency to discuss my observations and learn there wasn't an entity whose mission was to oversee CRA. Our discussion led to the establishment of the Saint Louis Equal Housing and Community Reinvestment Alliance, SLEHCRA, which was formed systematically and systemically examine bank CRA performance throughout the region. Not surprisingly, the SLEHCRA findings were stunning relative to bank CRA performance in African-American communities. In fact, the findings were so off the radar screen and disclose some banks assessment areas were craftily drawn in that bowtie to exclude low income areas in North Saint Louis city North County and East Saint Louis, again, all with high concentrations of African-Americans. And I'm gonna skip to [laughter]--my time out?

[Inaudible Remark]

[Laughter]

Romona Taylor Williams:
Okay. Alright. But I must say this. Lastly, FDIC released this unbanked survey in December 2009 which surveyed 20 US MSAs of which the Saint Louis, Missouri, Illinois, MSA was amongst. Saint Louis was found to have the highest percentage of unbanked and/or under-banked African Americans in the country. Given that, the findings of the unbanked study, FDIC has stepped in to help us to organize a task force that is called--and they kicked off on July 29th, it's called the "Saint Louis Regional Unbanked Task Force" to work on increasing the bankability of African-Americans in the region targeting the north side as a pilot. Given both FDIC and SLEHCRA's findings of bank to spare a treatment relative to communities of color, it is imperative that CRA be modernized to include race as a defining indicator to measure how and if local banks are engaged in equitable investments, lending, and services to low and moderate income track--census tracks. Thank you very much.

Elizabeth Duke:
Thank you.

[Applause]

Elizabeth Duke:
Thank you, and thanks to everybody, particularly to the Federal Reserve Bank of Chicago, President Evans, and Alicia Williams, whose staff has just done a tremendous job with both hospitality and organizers. Thanks also the regulatory agencies who have put so much time and industry into what I consider to be very productive hearings on CRA. Also to the technical staff, who have arranged to have these hearings live streamed onto the Internet so that we could reach much larger numbers than those who could be here in person. And thanks to the participants – those who spoke, those who responded, and most importantly, those who listened. The discussion has been thoughtful, respectful, and it has been a dialogue. And that dialogue will help us achieve better outcomes. Thank you. This hearing is adjourned.