NATIONAL BANKERS ASSOCIATION
AN INVESTMENT IN PEOPLE

January 3, 2008

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
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Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attn: ID OTS-2007-0030
E-mail:
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RE: Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment (Docket OP-1290-Federal Reserve; RIN 3064-AC97(FDIC); Docket ID OCC-2007-0012 (OCC); Docket ID OTS-2007-0030 (OTS))

Dear Ms. Johnson:

We would appreciate the opportunity to clarify remarks contained in a previous comment letter dated September 10, 2007. In connection with that letter, we would clarify Page 3 Section c) to read as follows:

c) Also as to the substance, we would ask that you revise Section I of the "Proposed New Questions and Answers", which states:

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The agencies propose a new question and answer, §ll.12(g)—4, that would give full effect to section 2903(b)'s broader geographic language. The proposed question and answer would state that activities engaged in by a majority-owned financial institution with a minority- or women-owned financial institution or a low-income credit union that benefit the local communities where the minority- or women-owned financial institution or low-income credit union is located will be favorably considered in the CRA performance evaluation of the majorityowned institution. The minority- or women-owned institution or lowincome credit union need not be located in, and the activities need not benefit, the assessment area(s) of the majorityowned institution or the broader statewide or regional area that includes its assessment area(s).

We would recommend that the qualifying language that reads "*...that benefit the local communities where the minority- or women-owned financial institution or low-income credit union is located*" be stricken, as it appears to require that majority banks obtain some type of proof (presumably a certificate or similar document) that their involvement with the minority bank ultimately can be directly linked to a specific CRA-related activity of the minority bank. This creates exactly the type of uncertainty in the application of these rules that will dissuade a majority bank from engaging in the desired activity at all. Stated differently, if a majority bank has the choice of a certain CRA beneficial activity such as the purchase of a loan pool in its assessment area, or a less certain (given the above referenced qualifying language) benefit from investing in a minority institution, in our experience they will almost always choose the more certain approach.

We hope that this letter effectively clarifies our remarks with respect to this section of the Interagency Questions and Answers. We appreciate your consideration and attention to this matter.

Sincerely,

Norma Alexander Hart
President

September 10, 2007

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Dear Ms. Johnson:

Thank you for the opportunity to comment on proposed questions and answers regarding community reinvestment.

Founded in 1927, the National Bankers Association represents the interests of minority and women-owned and managed financial institutions throughout the United States. Our member banks are located in 29 states and 2 territories, serving mainly distressed communities plagued by severe social and economic problems. Our members are deeply committed to providing employment opportunities, entrepreneurial capital and economic revitalization in neighborhoods that often have little or no access to alternative financial services.

For our member banks, service to their communities, which typically consist of low and moderate-income neighborhoods, is the essential reason that they exist. The Community Reinvestment Act serves a noble goal, for it encourages banks and savings

institutions that do not have the same commitment that our members have to serve the credit needs of low and moderate-income neighborhoods to make that commitment.

One way in which majority-owned financial institutions can reach depressed inner city and other neighborhoods dominated by deprived minority groups and individuals is to establish branch offices in those communities. But many such institutions choose not to do so. For those who live and work in those communities, having full access to many majority-owned financial institutions that operate in nearby communities is unattainable.

Alternatively, majority-owned financial institutions can support those minority-owned financial institutions with offices and relationships in those depressed markets through capital infusions, deposits, and other investments that would support the revitalization of the communities.

Despite the fact that the Community Reinvestment Act became law more than thirty years ago, many of our members continue to lack the support of majority-owned financial institutions that have the resources to assist our members in serving the banking needs of these economically depressed communities. Minority banks often have difficulty attracting sufficient capital from members of their communities to support growth and profitability because of lack of financial resources of those members, and therefore need to go outside their communities to attract the capital they need to succeed.

The federal banking agencies have recognized the importance of the role of majority-owned financial institutions in making investments in minority-owned financial institutions in the questions and answers relating to CRA compliance. The CRA question and answer regulations adopted in 2001 ask, "What are examples of qualified investments?" The answer provided is "Examples of qualified investments include, but are not limited to, investments, grants, deposits or shares in or to financial intermediaries (including…minority…owned financial institutions…) that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development…"

The current proposal also address activities engaged in by a majority-owned financial institution with a minority or women-owned financial institution by making it clear that activities engaged in by a majority-owned financial institution that benefit the local communities where the minority or women-owned financial institution is located will be favorably considered in the CRA performance evaluation of the majority-owned institution even if the minority or women-owned financial institution is not located in, or the activities do not benefit, the assessment area of the majority-owned institution or the broader statewide or regional area that includes its assessment area.

While these actions and proposals are helpful, NBA believes that more needs to be done to address the acute need of many of this nation's inner city neighborhoods and the minority institutions that serve those neighborhoods to attract capital and other investments from majority-owned financial institutions.

We believe that the federal banking agencies can use the Community Reinvestment Act and its regulations to more strongly encourage majority-owned financial institutions to invest in minority and women-owned financial institutions.

In this regard:

a) Although we appreciate the regulator's efforts, we nonetheless continue to believe that, given the importance of the matter to minority banks, and our experience in dealing with majority banks, that an express declaration in regulations regarding this issue is important. Majority banks generally devote very little time to these issues, and the certainty of a statement in the text of the CRA regulations, as opposed to a supplemental Q&A, cannot be overstated.

b) As to the substance of the Q&A (and ultimately the regulation), we would like to add "deposits" into minority institutions as a type of activity that generates CRA credit. The low-cost funding provided by deposits are as critical to the success of a minority bank as any of the other activities listed in the Q&A.

c) Also as to the substance, we would ask that you remove the last sentence of the regulation. That sentence appears to require that majority banks obtain some type of proof (presumably a certificate or similar document) that their involvement with the minority bank ultimately can be directly linked to a specific CRA-related activity of the minority bank. This creates exactly the type of uncertainty of application of these rules that will dissuade a majority bank from engaging in the desired activity at all. Stated differently, if a majority bank has the choice of a certain CRA beneficial activity such as the purchase of a loan pool in its assessment area, or a less certain (given the last sentence) benefit from investing in a minority institution, in our experience they will almost always choose the more certain approach.

The last sentence of the proposed Q&A also, however, highlights a much more fundamental issue. In the CRA area we really are seeking two regulatory changes: (1) a clear regulatory pronouncement that majority bank involvement in minority banks can yield CRA benefits to the majority bank (as discussed above); and (2) a clear regulatory pronouncement that minority banks should be viewed differently from majority banks for CRA purposes.

As to the CRA credit minority banks receive for their activities, the CRA currently focuses very heavily on lending into low-and-moderate income neighborhoods, and provides very little relative credit for actually operating a physical branch presence in urban and minority neighborhoods. Absurdly, from a CRA perspective, a minority bank would be much better off deploying its capital to lend into an urban community rather than to maintain a branch presence there to serve as a beacon of hope to inner city residents.

Given the mission of minority banks, the current CRA approach obviously is inappropriate. We thus are asking the banking agencies to develop a different standard for minority banks. Nothing can more truly support the spirit of CRA than to maintain operations in these neighborhoods and we want to be certain that the CRA rating for those activities is no less than for a lending program. Stated simply, we strongly believe that the regulations should be amended to make clear that, because of its CRA-centric mission, a bank that qualifies as a "minority bank" cannot have less than a satisfactory CRA rating.

Finally, another important consideration is the implementation of the CRA regulations and the CRA question and answer regulations. This entails the field examiners who conduct CRA examinations of financial institutions. It is essential that they be trained and informed as to the crucial role that majority-owned financial institutions can play in depressed communities in which those institutions do not have branch offices through investments in minority- and women-owned financial institutions. The examination manuals of each of the federal banking agencies should be reviewed to determine whether the guidance provided to the examiners is sufficient for them to be able to encourage majority-owned financial institutions to invest in the communities in which minority and women-owned financial institutions serve by making investments in those institutions.

Sincerely,

Norma Alexander Hart
President