From: ACTION Housing, Inc. , Lawrence A. Swanson and Greg Simmons

Subject: Reb. BB - CRA Regulations

Comments:

Date: Jul 15, 2010

Proposal: Community Reinvestment Act;Interagency Questions Regarding Community Reinvestment
Document ID: OP-1349
Document Version: 1
Release Date: 01/06/2009
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15 July 2010 Ben Bernanke, Chairman The Federal Reserve Board of Governors John Dugan, Comptroller of the Currency The Office of Comptroller of Currency John Bowman, Acting Director The Office of Thrift Supervision Sheila C. Bair, Chairman Federal Deposit Insurance Corp. Re: Written Testimony Submission The Community Reinvestment Act Modernization To Whom It May Concern: ACTION Housing, Inc. would like to thank the agencies for this opportunity to provide testimony on the importance of an expanded and strengthened framework for managing the Community Reinvestment Act. As a non-profit housing developer and housing related social service agency we cannot over-emphasize the importance using public policy to ensure that America's financial institutions continue and expand their commitment to traditionally underserved communities. The Community Reinvestment Act has been, and should remain a cornerstone of this policy. The demand for decent, dignified, quality affordable housing continues to exceed supply by an almost two-to-one ratio. As a regional housing provider ACTION Housing, Inc. has constructed and/or manages over 2,500 units of affordable housing - particularly for seniors and people with disabilities throughout Western Pennsylvania. The Community Reinvestment Act has been an effective tool to encourage financial institutions to make investments - profitable investments - in the communities we serve. CRA Is a Social Contract America's private financial institutions derive significant benefits from public services and capital. Deposit insurance provides a measure of security to their customers. The Federal Reserve - particularly in recent years - provides billions of dollars in liquidity when operating capital is scarce. The GSEs have allowed banks to make mortgage loans with very little retained risk. Federal guarantees through the FHA, VA and SBA and Rural Housing have guaranteed private institutions against loss. The recent finance crisis has

highlighted
the explicit manifestation of an implicit public commitment: ensuring stability in the financial system in a period of severe stress. In short, but for that public commitment - with taxpayer dollars - the financial system would have collapsed under the weight of its own mismanagement. Contrary to popular myth, the Community Reinvestment Act did not cause the financial crisis. High-risk, poor-quality lending, with no reasonable underwriting standards, quality control or common sense is to blame. In the states most heavily affected by market collapse and foreclosure inferior lending was broad-based, impacting all socio-economic demographics with no correlation to the needs of low-income families or neighborhoods. In fact, true CRA investment represents a relatively modest commitment by financial institutions in communities that are generally starved for capital. We view the Community Reinvestment Act as a social contract between the financial institutions, who enjoy tremendous support
from public resources, and the neediest communities where even a small investment can have outsized positive effects. Expanded Examinations CRA currently examines financial institutions based on three categories: lending, investment and service. The relatively narrow scope was designed to address the specific practice of redlining and general disinvestment that was common when the law was enacted. The assumption was that equal access to credit, area-specific investment, and locally accessible banking facilities would bridge the gap between capital and services and the communities in need of them. Initial applications of CRA were very successful in creating investment and development in areas that banks had formerly shunned. Many families were able to become successful first-time homebuyers and financial institutions developed relationships with community practitioners to drive revitalization. However, community needs are diverse and not always easily defined within neat geographic
boundaries. Since CRA was created the financial services industry has undergone a monumental transformation. Acquisitions and mergers changed the industry landscape from small local banks to massive multi-state and even national financial institutions with operations well beyond their traditional bank footprints. Some of these institutions do not have traditional retail footprints at all, leaving the definition of their service their CRA service areas vague. CRA needs to be modernized to meet the realities of the new financial services sector that has emerged. In recent years CRA investment has emphasized single-family home financing at the expense of other community credit and investment needs. A modernized CRA structure should emphasize a broader spectrum of project types including multi-family, affordable rental housing, small business, community facilities and other economic development activities that provide neighborhoodimprovements. Financial institutions meeting these expanded
needs should receive positive credit on their examinations for these activities. National CRA Commitments The emergence of large, national institutions provides unique geographic challenges for CRA modernization. An institution may offer credit, deposit and non-traditional financial products nationally but only be responsible to a small CRA assessment area based on an outdated bank footprint. This model has left large areas - particularly rural, tribal, and even some inner-city neighborhoods with a dearth of credit and services. In addition, many institutions have segregated significant operations away from their core businesses. Many banks, for example, operate mortgage lending subsidiaries that provide credit nationally which is then excluded from review during CRA examinations that remain bound by unrepresentative, outdated operating footprints. Updating CRA to reflect these realities should incorporate the following points: 1. Financial institutions

with national scope but limited or non-existent brick and mortar presence should meet their CRA obligations by participating in a nationally defined CRA program. 2. The largest financial institutions in the United States should automatically be measured against national CRA needs in addition to the needs of their traditional assessment areas, and likewise should receive credit for participation in the expanded scope. 3. National needs might include: a. Housing needs that serve disadvantaged individuals but are not necessarily related to a specific assessment area, such as supportive housing, neighborhood stabilization or affordable housing preservation. b. Large-scale projects that may exceed the capacity of local institutions such as transit development, large-scale multi-family housing, or regional economic development strategies with a significant defined benefit to traditional CRA populations. c. Service to geographic areas with limited CRA commitment from existing institutions - the so called 'Credit Deserts' - including remote rural or tribal areas, disaster areas, distressed cities or other identified high-poverty underserved census tracts. Capacity Building & Support A significant portion of community development work is performed by mission-oriented not-for-profit agencies. In many cases financial institutions have been generous with their support for these activities. Financial institutions should receive full credit for this support and CRA should encourage longer-term investments to promote operational stability. In areas with limited services, where capacity has not been realized, full credit should be given for capacity building, technical assistance and institutional infrastructure, and again, financial institutions should be fully credited for their efforts. ACTION Housing, Inc. reiterates its support for a robust national housing policy and for a modernized Community Reinvestment Act. CRA has helped financial institutions and communities form partnerships to bring much needed capital to underserved communities for over thirty-years. It has been the most effective tool for driving investment and economic activity in areas that had been abandoned by banks in the years before its enactment. Expanding CRA to cover a broader range of worthy activities and to give institutions significant recognition for those new investments is desirable, fair and sound public policy. Thank you for the opportunity to submit testimony.

Sincerely,

Lawrence A. Swanson and Greg Simmons