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May 17, 2013
Re: Proposed Changes to Interagency Q&A / Federal Reserve: Docket No. OP-1456
Robert deV. Frierson
Secretary, Board of Governors of the Federal Reserve System
20th St. and Constitution Avenue NW
Washington, DC 20551

North Branch Works, a member of the National Community Reinvestment Coalition (NCRC), regards the proposed changes to the Interagency Question and Answer (Q&A) document to be modestly productive. However, they do not address the comprehensive revisions to CRA regulation needed to keep pace with the changes in the banking industry. In the face of the foreclosure crisis and the slowdown in lending, I believe that the agencies must implement bold and aggressive changes to the CRA regulation in order to increase responsible lending, investing, and services in low- and moderate-income communities.

I. The proposed Q&As attempt to clarify the acceptability of community development activities outside of current assessment areas would more effectively promote community investment if **assessment areas were redefined as where an institution has significant market share**.

The proposed changes would modestly facilitate community development financing in smaller cities and rural communities; but these changes are much less effective than broader changes to assessment areas would be. The agencies should designate additional assessment areas for counties and metropolitan areas in which a bank makes sizable numbers of loans but in which the bank does not have branches. Expanding assessment areas would be more effective in stimulating increased community development financing and home and small business lending than the legalistic changes proposed to the Q&As.

Updating the definition of CRA assessment areas to ensure that banks are meeting the credit and banking needs of their true market area would be a more effective mechanism for promoting investment in underserved communities than the semantic changes contained in the proposed Interagency Q&As. Assessment areas should be defined as any state, metropolitan area, or rural county where an institution maintains retail offices or is represented by an agent or has at least a 0.5 percent market share in housing-related loans, securities, insurance, or any other financial instrument designated as CRA-eligible for the purposes of establishing an assessment area.

II. While community development lending is critical, it should not be done at the expense of retail lending, the largest portion of the lending test. A more effective way of reaffirming community development lending is to **create a community development test**.

The agencies must refrain from altering examination weights on community development lending. While it is desirable to affirm the importance of community development lending as the first part of the proposed Q&A does; the second part of the Q&A stating that strong performance in community development lending can compensate for weak performance in retail lending must be deleted. Strong performance on community development lending can not and should not compensate for weak performance on retail lending. A Q&A change cannot adequately deal with the complex issue of weighing community development lending and could inadvertently decrease the level of bank retail lending.

We strongly support that this new Q&A clarifies that community development lending is always a factor that is considered in an institution's CRA rating. It is good that regulators explicitly state in the proposed Q&A that "an institution's record of making community development loans may have a positive, neutral, or negative impact on the institution's lending test rating." Poor community development lending products and practices should always be reflected negatively on a CRA exam.

A more effective method for affirming the importance of community development lending would be to create a separate community development test. The community development test would incorporate community development lending and investments for all activities that primarily benefit low- and moderate-income communities. The important work of community development lending should be evaluated on its own merits, not as a replacement for retail lending.

III. The proposed Q&As should **make the services test more rigorous and meaningful and improve methods of assessing community needs**.

The proposed Q&As do not address the glaring deficiencies of the service test. While bank branches are closing, some large banks are now engaged in abusive payday lending. A more rigorous service test which assesses data on bank deposits in addition to bank branches in low- and moderate-income communities is urgently needed.

In addition, the existing Q&As regarding foreclosure prevention and loan modifications are not effectively stimulating large-scale foreclosure prevention activities. Reforms to the CRA regulation boosting the importance of foreclosure prevention and servicing must be undertaken.

We support the explicit consideration of nonprofit board service as a technical assistance activity that can be provided to community development organizations. This change would expand valuable expertise available to nonprofits working in community revitalization. Positive consideration of nonprofit board service however should only be granted if board members actually participate actively on the board and perform services that benefit low- and moderate-income people.

IV. Another issue that is not addressed by the proposed changes to the Q&A is **loan purchases versus originations.** Making loans represents a more concerted effort to serve community needs than purchasing high volumes of loans. The Q&A needs to be strengthened by saying that CRA examiners will separately evaluate originations and purchases and will downgrade banks if the purchasing is conducted in a manner to inflate the CRA rating and does not meaningfully increase access to credit. There is a difference between purchasing loans made by a Community Development Financial Institution (CDFI) and other community-focused institutions and indiscriminately purchasing loans from mainstream banks that have secondary market outlets. CRA examiners must take these differences into account.

The goal of the Community Reinvestment Act is to ensure that banks meet the credit and financial services needs of low- and moderate-income communities. There is no objective measure of what those credit and financial services needs are. Regulators should establish an interagency survey of financial services needs and require banks to publicly release their community investment plans. The public would be able to use these two elements to measure whether banks are living up to their community investment goals and the needs of the communities they should be serving.

Three years after the summer 2010 hearings in which the agencies received hundreds of comments, it is profoundly disappointing that the agencies are proposing half measures in the form of Q&As, while the agencies need to engage in comprehensive reforms regarding assessment areas, the service test, foreclosure prevention, and the consideration of loan purchases on CRA exams. We urge prompt and comprehensive reform to the CRA regulations.

Sincerely.

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cc. National Community Reinvestment Coalition