LOS ANGELES LDC
A Community Development Financial Institution

May 17, 2013

OCC: Docket ID OCC-2013-0003
Federal Reserve: Docket No. OP-1456
FDIC: Attention: Comments on CRA Interagency Q&A

Re: *Proposed Changes to Interagency Q&A*

To Whom It May Concern:

Please accept these comments on behalf of the undersigned, Los Angeles LDC, Inc., a California community development financial institution, which rely on the Community Reinvestment Act in working every day to improve and strengthen local communities through the development of methods to increase the deployment of capital to support small business growth and targeted investment for economic revitalization.

We thank the regulators for proposing to address several issues raised in prior comment periods. We have a history of meeting the needs of both borrowers and investors, and we strongly agree that bank partnerships and activities to support community development, as well as the need to provide greater incentives for CRA activity in non-urban areas, are of critical importance.

We would like to offer our comments as we do not think these proposals go far enough to address our concerns, and the proposals falls short in addressing a quickly changing industry with a myriad of other issues that groups have raised in the past about how regulators must adopt forward looking policies that protect and strengthen CRA implementation.

<u>What is Good about the Proposal</u>

We strongly support two apparent goals of the proposal – to emphasize the critical importance of community development activities, and to encourage additional CRA activity in non-urban areas that are in dire need of such partnerships and support.

Some banks have been good partners with nonprofit groups building affordable housing through the provision of community development loans, tax credit investments, and other means. Yet, California's housing crisis has only gotten worse as the foreclosure crisis has disproportionately impacted our residents and communities, and as the end of Redevelopment Agencies in our state has eliminated a major and important form of subsidy that developers have come to rely on in putting the pieces together for affordable housing finance packages. We need financial institutions to do more, and to be more creative, in helping to meet the growing need for affordable housing in our state.

Further, the impact of the financial crisis is most severely felt in non-urban California. For the last several years, some of the hardest hits communities in the nation in terms of foreclosures have been located in California's Central Valley. But capacity and resources in the Valley and

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non-urban areas are limited, making it harder to mitigate problems and meet needs. Banks, both those located in the area and those not so located, are failing to do enough to support these communities. As one strong example, affordable housing developers outside of the major California markets report a marked drop in bank competition, and an accompanying drop in prices, for tax credit deals in non-urban California. This lack of bank competition means fewer affordable housing units built in the areas most in need of such housing.

<u>What is NOT GOOD about the Proposal</u>

- The regulators should revisit outdated notions of "assessment areas" and acknowledge the greater use of technology to collecte deposits and deliver services. The banking or financial services industry is rapidly adapting to technology innovations. New technologies are changing the ability of banks to gather deposit and deliver services without a "brick and mortar" delivery system. It is clear that regulatory requirements, under CRA, are not keeping pace. The concept of a collection of banking centers in a geographically designated assessment area fails to recognize the new mobility in the access and delivery of financial services. A transfer of deposit from Bank of America to institutions like Countrywide Bank, H&R Block Bank, Charles Schwab Bank, Capital One Bank does not give rise to these institutions having an assessment area in California and any commitment under CRA. This is wrong, and for these institutions, the regulators should look to expand their assessment areas to where they are marketing products, making loans, and earning profits, as well as where their depositors reside (not where they formally "accept" those deposits using legal contortions).

- The regulators should expand transparency through data collection of community development activities. CRA must empower communities to expect banks in their area to well serve local communities, consistent with safety and soundness. Currently, there is very little information available to the public about what kinds of loans and investments are being made by banks in their assessment areas. The only real information that exists currently, are the banks' CRA Performance Evaluations, which can often read like marketing materials from the banks themselves or regulators to speak in technical terms or regulator speak. More detailed HMDA like data across all lines of business in LMI communities will allow the regulators have a much clearer picture of any institutions activities while conducting a Performance Evaluation. This will finally make all lending data meaningful, worth analyzing, and helpful to communities that are seeking to understand whether and where banks are meeting their credit needs.

- Local community development needs are not always best served by national providers. Financial intermediaries play an important role in community development, and we support that work. At the same time, LDC has long raised concerns that support for national funds and efforts often do not trickle down to the local level. By clarifying that large national retail banks and limited purpose banks can more easily seek CRA credit by investing in national funds, the regulators are making it easier for banks to fail to get to know their local communities. And while intermediaries can serve a critical niche, it may also be true that their loans come with added transactional costs (no one stop shopping, more legal work) and perhaps tighter underwriting than if the bank made the loans itself. In other words, this could result in the opposite of added value by banks in non-urban communities. It is important for banks to have a local presence and strong relationships in all of the communities where they are chartered to do business. We are already trying to recover from the many problems with ***Too Big To Fail*** with financial institutions and discounting local access in favor of ease of working with large organizations located outside of local markets is NOT the best long term solution. Your proposal moves in the wrong direction here.

- Community development should only positively or negatively impact a CRA evaluation. We support the proposals emphasis on community development and its importance, and note approvingly the proposal's confirmation that community development performance will impact a CRA evaluation. But allowing for a "neutral" impact in effect neutralizes the impact of this proposal. Additionally, we are concerned that a strong retail lending performance could offset a weak community development performance, or vice versa, as the proposal suggests. Each analysis should stand on its own.

<u>What is COMPLETELY MISSING from this proposal?</u>

Perhaps most disappointing about this proposal is what is missing. The LDC and many others have for years warned the regulatory community that they have allowed CRA to be outpaced by bank practices. So, it was with great optimism that we welcomed the CRA hearings in 2010, organized our members and allies to participate, and looked forward to meaningful CRA reform that would bring meaningful benefits to the low income communities that were meant to benefit from CRA.

Instead, three years later we do not see substantial or progressive proposals for change or improvement. The goal of bringing more clarity to aspects of the Questions and Answers is not impressive. We have rescued the industry and need to address critical issues, so that banks feel more incentivized to offer loans, investments and services in all communities where they are charted to do business, consistent with safety and soundness.

- Greater support small business lending is necessary.
- Include race and ethnicity, along with income, as a factor in determining whether banks are meeting their CRA obligations to serve all communities.
- Don't overlook customer mobility and technology along branch banking.
- Insure enhance transparency through more robust data collection for small business, multifamily, loan modifications and consumer products.
- Downgrades for poor performance and harmful practices, including legal settlements that cover LMI customers.
- Include reporting released under Responsible Banking Ordinances to substantially enhance community participation and input.

In conclusion, we support the proposals efforts to enhance bank support for community development activity and for more lending and investment in non-urban areas. But we think the regulators missed the opportunity to be more impactful, by reforming outdated definitions of assessment areas and telegraphed CRA examinations that allow banks to game the system. Further, there is much that is wrong with CRA that should have been fixed with this proposal, but was overlooked.

Many community commenters, like the LDC, provided extensive comments three years ago urging a more substantial retooling of CRA for the new world in which financial services are delivered. We urge the regulators to go back to the drawing board and take up those issues raised then and reiterated here.

Thank you for the opportunity to comment and for considering our views. Should you have any questions, please feel free to call me at 213-362-9113.

Sincerely,

M Banner

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President and CEO

cc: Honorable Herb Wesson, Jr., President
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