

From: Inner City Press, Matthew Lee
Proposal: 1456 - CRA; Interagency Questions & Answers Regarding Community Reinvestment;
Notice
Subject: CRA; Interagency Questions & Answers

Comments:

May 17, 2013

To: regs.comments@federalreserve.gov, regs.comments@occ.treas.gov,
comments@fdic.gov

Re: Proposed Changes to Interagency Q&A, and general comment about the need
for more rigorous and transparent enforcement of CRA on merger and
expansion applications

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

To Whom It May Concern:

On behalf of Inner City Press / Fair Finance Watch ("ICP"), this is a
timely comment on the proposed changes to the Inter-agency CRA Q&A (the
"Q&A"). As you will hear from other members of the National Community
Reinvestment Coalition (NCRC), the Q&A should have gone much further, and
fall far short of the comprehensive revisions to the CRA regulation needed
to keep pace with the changes in the banking industry.

Beyond the comments below, ICP would like to emphasize to the agencies that
since CRA is only enforced on applications to merge or expand, it is
essentially that the agencies' processing of such applications, particularly
when CRA comments are filed, must become more rigorous and more
transparent. Recently ICP's experience is of information being withheld,
insufficient questions being asked, and many of the answers also withheld.
This undermines CRA.

Currently, assessment areas are only those geographical areas containing
bank branches although many banks, especially large banks, make
considerable numbers of loans beyond their branch networks through loan
officers, brokers, or correspondent lenders. 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. This is not difficult to do; the former Office of Thrift
Supervision (OTS) assessed performance in geographical areas with high
numbers of loans beyond bank branch networks.

Expanding assessment areas would be more effective in stimulating increased
community development financing and home and small business lending than
the tortured semantic and legalistic changes proposed to the Q&As.
In addition, the agencies are missing an opportunity to assess the
effectiveness of their proposed changes by not requiring additional data
disclosure of community development lending and investing. For the past
several years, NCRC and its members have been advocating for the agencies
to publicly provide data on community development lending and investing on

a census tract level or at least on a county level. If county level data was available for community development financing, the agencies and the public at large could assess how effective any proposed changes to the regulation or Q&As would be in stimulating more community development financing in rural counties and smaller cities while ensuring that the current assessment areas do not experience significant declines in community development financing. The data would either reconfirm any recent changes or would prompt additional changes.

The agencies must also refrain from altering examination weights in their proposed Q&A 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. Since retail lending is the predominant part of the lending test, it is unlikely that strong performance on community development lending can or should compensate for weak performance on retail lending.

Better methods can be developed for elevating the importance of community development lending. Either examination weights can be more fully developed on the lending test or community development lending and investing should be considered together on a community development test. A change to a Q&A cannot adequately deal with the complex issue of weighing community development lending and could inadvertently decrease the level of bank retail lending.

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.

Still another issue that is not addressed by the proposed changes to the Q&A is loan purchases versus originations. NCRC and its members have commented recently on CRA exams in which banks are making few loans to low- and moderate-income borrowers but purchasing several loans made to these borrowers from other banks. Making loans represents a more concerted effort to serve community needs than purchasing high volumes of loans. Existing Q&As warn banks against purchasing loans to "artificially inflate CRA performance." But since this behavior continues, 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.

Three years after the summer 2010 hearings in which the agencies received hundreds of comments, we are profoundly disappointed 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. If you have any questions, please contact the undersigned at ICP at 718 716-3540.

Sincerely,
Matthew Lee, Executive Director
Inner City Press / Fair Finance Watch