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42

July 17, 2000

Manager
Dissemination Branch
Information Management & Services Division
Office of Thrift Supervision
1700 G Street NW
Washington DC 20552

Attention: Docket No. 2000-44

Dear Sir or Madam:

As Executive Director of the National League of Cities (NLC) which represents 18,000 municipalities and 49 state municipal leagues, I am writing to offer our comments on the "sunshine" regulations mandated in last year's Gramm-Leach-Bliley Act of 1999, known as financial services modernization. On behalf of our members, I urge you to make significant changes in these proposed regulations which we believe were designed to discourage and, at a minimum, chill the cooperation that has developed between community reinvestment advocacy groups and banks seeking to increase their CRA lending.

NLC appreciates that the federal banking agencies had a difficult task of developing regulations for a confusing statute, and we appreciate the steps they have taken to reduce the burden for local government agencies, neighborhood organizations, banks, and other parties interested in economic and community development in low- and moderate-income communities.

It is the position of NLC that the sunshine provision in the statute strikes at the heart of the Community Reinvestment Act (CRA). The purpose of the Community Reinvestment Act is to encourage members of the general public to articulate credit needs and engage in dialogue with banks and federal banking agencies. CRA stimulates collaboration for the purpose of revitalizing inner city and rural communities. The sunshine provisions in the statute make CRA-related speech suspect and target bank cooperation with community reinvestment groups and vice versa. In fact, they threaten to reverse more than 20 of progress in community lending made possible by partnerships among banks, the public sector and the private sector.

The sunshine provisions require banks, community development organizations, and a large number of other non-governmental parties to disclose private contracts to federal agencies if the parties engage in so-called CRA "contacts" or discussions about how to help the bank make more loans and investments in low- and moderate-income communities. There is no evidence that these straightforward and constructive agreements require disclosure to prevent some illegal or unreputable activity or relationship. We are concerned that the burden of reporting, and for some banks revealing their initiatives to their competitors, will result in far less lending in underserved communities.

As a national organization representing 137,000 local elected officials, we have been strong supporters of the Community Reinvestment Act and have seen very positive results in our low- and moderate-income communities since its passage in the 1970s. Our members have encouraged community investment advocates in their communities to work with the banks in underserved neighborhoods to expand credit opportunities for homeownership as well as small business development. Placing a complicated reporting burden on small community-based, nonprofit groups will discourage many of them from working directly with banks to increase lending in low- and moderate-income communities.

Also, most of our members would take exception to the possibility of contracts negotiated by their cities, in conjunction with non-governmental entities, being subject to disclosure. Unfortunately, many private sector organizations will simply do less CRA-related business since they will not want to deal with the disclosure requirements. The result will be fewer loans and investments reaching the low- and moderate-income communities our members represent. The job of revitalizing center-city and rural communities will become much harder.

CRA Contacts
Because of the profound damage the CRA contact portion of the sunshine provision will cause cities and towns throughout the country, NLC would like the federal banking agencies to refrain from implementing the CRA contact rules until they have gotten an opinion from the Department of Justice's Office of Legal Counsel regarding its constitutionality.

In addition, the Federal Reserve Board has the discretionary authority to exempt agreements or contracts from disclosure based on CRA contacts. Knowing this, NLC would like to ask the Federal Reserve to eliminate all CRA contacts as a trigger for disclosure.

Material Impact
Instead of using CRA contacts as a trigger for disclosure, we believe that the federal banking agencies should revise their material impact standard. NLC believes that a CRA agreement or contract should not be required to be disclosed unless it requires a bank to increase the number of loans, investments, and services it offers in more than one of its markets. The federal banking agencies have proposed that agreements are to be subject to disclosure if they specify any level of CRA-related loans, investments, and services. But only a higher number of loans and investments in more than one market is likely to have a material impact on a CRA rating or a decision on a merger application.

The agencies' interpretation of material impact will result in an unwieldy regulation. Simply put, hundreds, if not thousands, of contracts with community development corporations and other organizations may have to be disclosed.

If the material impact standard is not changed, the agencies will be deluged with thousands of letters, written understandings, or contracts about these types of loans and grants made to nonprofit organizations and for-profit companies working in low- and moderate-income communities.

To make the sunshine regulation more reasonable, NLC would like to suggest that it focus on agreements made during the public comment period on a merger application or during the time period when a CRA exam is announced and when the exam occurs. This would reveal to the regulators if there have been excessive or extraordinary financial arrangements made between banks and community groups to influence a bank's CRA rating. It is at this point in the CRA process that Senator Phil Gramm (R-Tx.), author of the sunshine provision, believes community groups are extorting money from banks.

Senator Gramm, in a lengthy interview in the *American Banker* on June 9, 2000, suggests that disclosure requirements should apply to pledges that are made unilaterally by banks and that are not signed by non-governmental third parties. The Gramm-Leach-Bliley Act simply does not include unilateral pledges as contracts requiring disclosure. To make matters, worse, the Senator suggests that "any meeting between a community group and a bank about CRA investments should trigger disclosure requirements." An indefinite time period, as the Senator suggests, will result in enormous burdens by all parties in remembering and tracking any meetings or negotiations concerning loans, investments, and grants in traditionally underserved communities.

Means of Disclosure

Under the procedures of general operating grants, NLC would like to ask the federal agencies to specify in the final regulation that the use of IRS Form 990 is an acceptable means of disclosure. In their preamble to the draft regulation, the federal agencies state that the 990 form provides more than enough detail for satisfying disclosure requirements. Codifying the use of 990 forms would simplify reporting requirements and reduce burdens for nonprofit organizations that are very familiar with the 990.

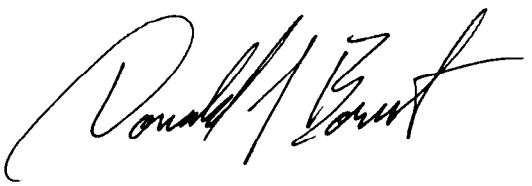
The public record from the congressional deliberations over the Gramm-Leach-Bliley Act support the use of the IRS 990 form. The Manager's report, accompanying the legislation, states that a federal income tax return is an acceptable means of disclosure. In addition, Representatives Jim Leach (R-Iowa) and John LaFalce (D-N.Y.) engaged in a colloquy on the eve of the House vote on Gramm-Leach-Bliley in which they emphasized the use of federal income tax returns as satisfying the disclosure requirements.

NLC also supports the proposed reporting procedures for specific grants. If a nonprofit organization receives a grant or loan for a specific purpose such as purchasing computers or providing financial literacy counseling, the nonprofit organization should be able to comply with the disclosure requirement by describing the specific activity in a few sentences.

Who Must Report
NLC agrees with the federal agencies that non-governmental parties should not be required to submit annual reports during the years in which they did not receive grants or loans under the agreement. While other organizations may have received grants and loans under the agreement, it would be logistically impractical for the negotiating party to report on how the grants and loans were used by the other parties. In many cases, large banks may be making relatively small grants to hundreds of community groups over a multi-state area. It is also unreasonable for the non-negotiating parties to be required to report since they may not even be aware that they received grants or loans because of a CRA agreement.

In Conclusion
While it may be impossible for the so-called sunshine provision to be a non-meddlesome regulation, we believe that our suggestions would reduce the burden and damage it could cause to revitalizing inner city and rural communities. We urge the federal banking agencies to adopt our suggestions for streamlining the sunshine regulation. We must also add that we will be working with community organizations, banks, and other concerned parties to repeal this counter-productive statute so that the private sector will not be burdened with disclosure requirements simply because they want to do business in and help revitalize traditionally underserved neighborhoods.

Sincerely,



Executive Director
National League of Cities