

MAKING THE CRITICAL DIFFERENCE

March 2, 2004

15

VIA FACSIMILE

Regulation Comments, Attn: No. 2004-04
 Chief Counsel's Office
 Office of Thrift Supervision
 1700 G St NW
 Washington, DC 20552
 202.906.6518 (Fax)

29 East Madison Street
 Suite 1700
 Chicago, Illinois 60602
 T 312.252.0440
 F 312.252.0419
www.cclfcchicago.org

Dear Office of Thrift Supervision:

On behalf of the Chicago Community Loan Fund, a member of the National Community Reinvestment Coalition, I urge you to withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations. Rather than fulfilling the Administration's goals of improving the economic status of immigrants and creating 5.5 million new minority homeowners by the end of the decade, the proposed CRA changes would facilitate predatory lending and reduce the general public's ability to hold financial institutions accountable for compliance with consumer protection laws.



The proposed changes include three major elements:

- 1) Providing streamlined and cursory exams for banks with assets between \$250 million and \$500 million;
- 2) Establishing a weak predatory lending compliance standard under CRA; and
- 3) Expanding data collection and reporting for small business and home lending.

While the third proposal does represent positive change, its beneficial impacts will be overwhelmed by the damage imposed by the first two proposals.

Additionally, the federal banking agencies are missing a vital opportunity to continue CRA's effectiveness by not updating procedures regarding affiliates and assessment areas in their proposal.

Negative aspects of the proposed changes include:

- **Streamlined and Cursory Exams.** Under the current CRA regulations, large banks with assets of at least \$250 million are rated by performance evaluations that scrutinize their level of lending, investing, and services to low- and moderate-income communities. The proposed changes will eliminate the investment and service parts of the CRA exam for banks and thrifts with assets between \$250 and \$500 million. The proposed changes would reduce the rigor of CRA exams for 1,111 banks that account for more than \$387 billion in assets—translating into considerably less access to banking services and capital for underserved communities.

BOARD OF DIRECTORS

Rafael M. León
Chair

Patricia Y. McCreary
Vice-Chair

Edward J. Hoynes, CPA
Treasurer

Susan Kaplan, Esq.
Secretary

Charles F. Daas
 Mohammed Elahi
 Toya Horn Howard
 Ed Jacob
 Raymond S. McGaugh, Esq.
 Richard Peabody
 Nancy Radner
 Maria Saldaña
 Kathryn Tholin
 John L. Tuohy, Esq.

Calvin Holmes
Executive Director

Chicago Community Loan Fund
Re: Proposed CRA Changes
Page 2

- **Predatory Lending Standards.** The proposed CRA changes contain an anti-predatory screen that will actually perpetuate abusive lending. The proposed standard states that loans based on the foreclosure value of the collateral, instead of the ability of the borrower to repay, can result in downgrades in CRA ratings. This asset-based standard will not cover many instances of predatory lending, such as abusive lending that strips equity without leading to delinquency or foreclosure. Rigorous fair lending audits and severe penalties on CRA exams for abusive lending area necessary in order to ensure that banks serve low- and moderate-income communities consistent with safety and soundness.
- **Missed Opportunity to Update Exam Procedures.** The agencies have also failed to close gaping loopholes in the CRA regulation. For instance, it is still optional for banks to include affiliates on CRA exams—allowing for the exclusion of affiliates not serving low- and moderate-income borrowers and the exclusion of affiliates engaged in predatory lending. In addition, the proposed changes do not address the need to update assessment areas to include geographical areas beyond bank branches. Many banks make considerable portions of their loans beyond their branches; this non-branch lending activity will not be scrutinized by CRA exams.

One positive aspect of the proposed changes is enhanced data disclosure. The federal agencies propose that they will publicly report the specific census tract location of small businesses receiving loans in addition to the current items in the CRA small business data for each depository institution, improving the general public's ability of to determine if banks are serving traditionally neglected neighborhoods with small business loans. The regulators also propose separately reporting purchases from loan originations on CRA exams and separately reporting high cost lending (per the new HMDA data requirement starting with the 2004 data).

However, the positive aspects of the proposed data enhancements do not begin to make up for the significant harm caused by the first two proposals. Furthermore, these data enhancements will only make the exams more rigorous if agencies use the new data to provide less weight on CRA exams to high cost loans than prime loans and assign less weight for purchases than loan originations—which change has not been proposed.

CRA has been instrumental in increasing access to homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities. The proposed changes, which are actually contrary to the CRA statute, will halt the progress made in community reinvestment. I therefore urge you again to withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations

Thank you for your attention to this critical matter.

Sincerely,



Calvin L. Holmes
Executive Director

Cc: Office of the Comptroller of the Currency
Jennifer J. Johnson, Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Community Reinvestment Coalition
President George W. Bush
Treasury Secretary John W. Snow