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Sent: Wednesday, March 31, 2004 4:22 PM
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Subject: Withdraw CRA Changes

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March 31, 2004

Docket No. 04-06
Communications Division
Public Information Room, Mailstop 1-5
Office of the Comptroller of the Currency
250 E St. SW,
Washington 20219

Docket No. R-1181
Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St NW
Washington DC 20429

Regulation Comments, Attention: No. 2004-04
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington DC 20552

Dear Officials of Federal Bank and Thrift Agencies:

I urge you to withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations. 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. However, the proposed changes are contrary to the CRA statute because they will halt the progress made in community reinvestment and undermine its purpose.

The proposed CRA changes will thwart 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. Instead, the proposed CRA changes would facilitate predatory lending and reduce the ability of the general public to hold financial institutions accountable for compliance with consumer protection laws.

The proposed changes have three major parts: 1) provide streamlined exams for banks with assets between \$250 million and \$500 million; 2) establish a weak predatory lending compliance standard under CRA;

and 3) expand data collection and reporting for small business and home lending. While the last proposal is beneficial, its impacts CANNOT make up for the drastic damage imposed by the first two proposals.

#1) Making the Exams Easier

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.

The elimination of the investment and service tests for more than 1,100 banks translates into considerably less access to banking services and capital for underserved communities. These banks would no longer be held accountable under CRA exams for investing in Low Income Housing Tax Credits, which have been a major source of affordable rental housing needed by large numbers of immigrants and lower income segments of the minority population. Likewise, the banks would no longer be held accountable for the provision of bank branches, checking accounts, IDAs, or debit card services. Thus, the effectiveness of the Administration's housing and community development programs would be diminished. Moreover, the federal bank agencies will fail to enforce CRA's statutory requirement that banks have a continuing and affirmative obligation to serve credit and deposit needs if they eliminate the investment and service test for a large subset of depository institutions.

#2) A Weak "Anti"-predatory Standard

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. While this is good to some extent, this asset-based standard falls short because it will not cover many instances of predatory lending.

In turn, it provides a loophole for banks that says if a loan doesn't end in foreclosure, it's not necessarily a predatory loan! In other words, borrowers can have the necessary income to afford monthly payments, but they are still losing wealth as a result of a lender's excessive fees or unnecessary products.

CRA exams will allow abusive lending if they contain the proposed anti-predatory standard because it does not address any of the following: packing of fees into mortgage loans, high prepayment penalties, loan flipping, mandatory arbitration, and other numerous abuses.

Rigorous fair lending audits and severe penalties on CRA exams for abusive lending are NECESSARY in order to ensure that the new minority homeowners served by the Administration are protected. Yet, the proposed

predatory lending standard will NOT provide these necessary protections.

#3) Better 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. I highly agree with this proposal, as it will improve our ability to determine if banks are serving traditionally neglected neighborhoods with small business loans.

Please note, however, that the positive aspects of the proposed data enhancements DO NOT BEGIN to make up for the significant harm caused by the first two proposals. The first two proposed changes to CRA will directly undercut the purpose of CRA. The proposals regarding streamlined exams and the anti-predatory lending standard threaten CRA's statutory purpose of the safe and sound provision of credit and deposit services.

CRA is too vital to be gutted by harmful regulatory changes and neglect. PLEASE DO NOT MAKE THE FIRST TWO PROPOSALS AS THEY WOULD BE EXTREMELY HARMFUL TO THESE COMMUNITIES.

Sincerely,

Noelle E. Melton

Cc:
President George W. Bush
Treasury Secretary John W. Snow

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