1

DR04/15
cc: Carolyn Box
Sandi Evans

NATIONAL COMMUNITY REINVESTMENT COALITION

NCRC

733 15th Street, NW Suite 540
Washington, DC 20005-2129
Phone: 202 628-8866
Fax: 202 628-9800
Website: www.ncrc.org

January 15, 2004

The Honorable James E. Gilleran
Office of Thrift Supervision
1700 G. Street, NW
Washington, DC 20552
202-906-6000

Dear Director Gilleran:

The Community Reinvestment Act (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. According to press reports, the federal regulatory agencies will soon propose changes to the CRA regulations that will reduce the law's effectiveness in leveraging credit and capital for traditionally underserved communities. The undersigned groups ask that you not issue any proposed changes to CRA and we respectfully request a meeting to discuss any anticipated regulations.

The proposed CRA changes will thwart the Administration's goals of improving the economic status of minorities and immigrants, and expanding homeownership opportunities for emerging populations by 5.5 million homeowners. Instead, the proposed CRA changes would facilitate predatory lending and reduce the ability of individual homeowners and communities to hold financial institutions responsible for compliance with consumer protection laws and regulations.

We understand that there are three separate proposals included in the proposal: 1) to increase the assets threshold for CRA exams for financial institutions from $250 million to $500 million; 2) to establish a weak predatory lending compliance standard under CRA; and 3) to prohibit financial institutions from cherry picking among affiliates to include in their CRA examinations. We wish to make it clear that while there may be some benefit to the third proposal, it does not make up for the terrible damage to Americans caused by the first two.

Raising the Asset Threshold. 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. We understand that 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. To make matters worse, these banks and thrifts would be examined only once every four or five years, instead of once every two years. It is, in great part, due to the presence of federal CRA examiners at these institutions every other year that encourages these banks to make more homeownership and small business loans. The proposed changes would reduce the rigor of CRA exams for 1,350 banks or about 15 percent of all depository institutions. These banks account for more than $420 billion in assets.

The elimination of the investment and service tests for more than 1,300 banks translates into considerably less access to banking services and capital for underserved communities. For example, 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, Individual Development Accounts (IDAs), or debit card services. Thus, the effectiveness of the Administration's housing and community development programs would be diminished.

Predatory Lending Standard. The undersigned organizations are also concerned that the proposed CRA changes may contain an inadequate standard for determining predatory lending. Any standard that does not address the problems of the packing of fees into mortgage loans, high prepayment penalties, loan flipping, mandatory arbitration, and other similar abuses, will allow CRA exams to be used to cover up abusive and predatory lending practices. 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, but the proposed predatory lending standard will not address the issue.

Eliminating the Choice of Affiliates. Under current CRA regulations, a bank may select one or more of its affiliates to be included in the CRA review, at the discretion of the bank. Under the proposed regulation, a bank would be required to make all of its affiliates subject to CRA review, or exclude the information completely. Banks would no longer be able to select or "cherry pick" among its affiliates. While this appears to be a positive change to the regulations, it is long overdue and does not go far enough. Our collective position is that banks should report all loans regardless of their origination and should not be able to opt in or out when convenient. This was the intent of Congress, the Home Mortgage Disclosure Act and CRA. This proposed change does not make up for the significant harm caused by the first two proposals.

The changes allegedly proposed by the federal banking agencies, will directly undercut the Administration's emphasis on minority homeownership and immigrant access to jobs and banking services. We therefore urge you to halt any proposed changes to CRA, or similar proposals, that would impair a law that has been effective in increasing access to credit and capital for populations that you care deeply about. CRA is simply a law that makes capitalism work for all Americans. Thank you for your attention to this critical matter.

Sincerely,

National Community Reinvestment Coalition
Unites States Conference of Mayors
Consumer Federation of America
Consumers Union
National Association for the Advancement of Colored People (NAACP)
National Consumer Law Center
Woodstock Institute

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

American Community Partnerships
Center for Responsible Lending (Self-Help)
California Reinvestment Committee
National Low Income Housing Coalition
National Puerto Rican Coalition
Sergeant Shriver National Center on Poverty Law
Center for Economic Progress
National Community Development Association
Community Reinvestment Association – North Carolina
Leadership Council for Metropolitan Open Communities

cc: John W. Snow, Secretary, U.S. Department of the Treasury
Alan Greenspan, Chairman, Federal Reserve System
John D. Hawke, Comptroller, Office of the Comptroller of the Currency
Senator Richard C. Shelby, Chair, Banking, Housing and Urban Affairs Committee
Senator Paul Sarbanes, Ranking Member, Banking, Housing and Urban Affairs Committee
Representative Michael G. Oxley, Chairman, Financial Services Committee
Representative Barney Frank, Ranking Member, Financial Services Committee
Representative Sue Kelly, Chair, Oversight and Investigations Subcommittee, Financial Services Committee
Representative Luis Gutierrez, Ranking Member, Oversight and Investigations Subcommittee, Financial Services Committee