

**NEIGHBORHOOD HOUSING SERVICES
of New York City, Inc**

307 West 36th Street · 12th floor · New York, NY 10018

Tel 212.519.2500

Fax 212.727.8171

April 5, 2004

345

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:

As a member of the National Neighborhood Housing Network (NNHN), Neighborhood Housing Services of New York City (NHS) would like to voice our concern over several elements of the proposed changes to the regulations governing the Community Reinvestment Act (CRA).

While I agree with the agencies' stated goal of updating CRA regulations to keep pace with changes in the financial services industry, we believe that such an update should be aimed at strengthening and broadening the reach of CRA as opposed to retracting it as it is suggested by the proposed rule. I appreciate this opportunity to comment on the proposed rule and to share with you on how NHS has effectively used CRA to cultivate relationships with financial institutions and ensure that a full range of financial services and products are available to residents of the low and moderate income communities in which we work.



For over twenty years, Neighborhood Housing Services of New York City has been working to provide low- and moderate-income residents the opportunity for purchase their own home or to provide them with the resources to maintain their homes. NHS is a not-for-profit organization working to increase and protect investment in underserved low- and moderate-income neighborhoods, providing education to inform and assist people and to build communities encourage and support neighborhood self-reliance. NHS accomplished its mission by rehabilitating housing and mixed-use properties; constructing new affordable housing and providing pre- and post-purchase education which ultimately create neighborhood revitalization.

NNHN is a not-for-profit organization that advocates for better neighborhoods and housing for low- and moderate-income Americans. NNHN is comprised of more than 160 NeighborWorks (NWOs) organizations that use Neighborhood Reinvestment funds to leverage private dollars to create new homeowners, revitalize distressed communities.

CRA has been vital to the work of NHS. CRA not only provides an incentive for financial institutions to develop relationship with NHS and other NWOs, but it is also a critical force in maintaining these relationships and in keeping banks committed to providing services and products to residents in low- and moderate-income communities.

THE IMPORTANCE OF CRA TO NNHN MEMBERS

CRA opens the door for productive and responsive relationships between community-based organizations, like NHS and other NWOs, and the banking industry. These relationships have helped to yield outstanding results in communities served. Last year at NHS, over three thousand low- and moderate-income individuals received pre-purchase education and over eleven thousand clients received post-purchase education sessions consisting of financial educations, home maintenance training, foreclosure prevention just to name a few. Also, in 2003, NHS' homeownership lending initiatives yielded over six hundred closed loans and over \$117 million value-d loans. In addition, since 1996 the NeighborWorks Campaign for Home Ownership has assisted 70,000 households to become homeowners, 89 percent of whom were low- or moderate-income and provided homeownership counseling to over 420,000 individuals. These impacts could not have been achieved without the participation of bank partners.

Spurred by CRA requirements, lenders frequently work with NHS and other NWOs to capitalize existing loan pools or to create new products designed to specifically to target an underserved market niche. For example, NHS has a loan product which is comprised of 15 banks called the Consortia. The Consortia was created to provide loans to low- and moderate-income residents who might not be considered for a loan from a convention bank otherwise. The group of lenders pooled their financial resources together in order to mitigate the risk of clients but provide the client with the opportunity to improve their home through a home improvement loan. This product meets a clear community need and implied a greater risk for the banks and if not for CRA it is unlikely that the bank would not have collaborated to create such a product.

Besides NHS, countless NWOs in NNHN have had similar experiences using CRA as leverage to expand the availability of bank products and services in the communities v e serve

Not only has CRA spurred lenders to provide more appropriate products, it has also encouraged lenders to become more involved in community education efforts. NHS is proud to have over ten financial institutions involved in providing lending, volunteer their professional expertise and participate in the educational services to our clients.

PREDATORY LENDING

While we applaud the agencies desire develop CRA standards designed to curtail abusive lending practices, we are concerned that the proposed rule as drafted will not have the effect of actually preventing the practices we see perpetuated by predatory lenders in our neighborhoods.

If abusive lending practices are allowed to continue, community-based organizations, like ourselves will continue to act as the safety-net for victims of predatory lending and with increasing frequency, many NWOs will find themselves detracted from their core mission in order to address the emergencies created by abusive lenders.

NHS sees first hand the destruction that predatory lenders can have on a neighborhood. Everyday, our offices are contacted by numerous an individuals and family members after they have been victimized by a predatory lender, have lost their home or are on the verge of losing their home. By the end of 2003, NHS provided Early Delinquency and Foreclosure Prevention counseling to over 600 families, educating over 1,100 about Early Delinquency Intervention and Foreclosure Prevention through seminars, forums and panels on the subject, and preventing foreclosure through loss mitigation efforts by facilitating loans with a value of \$3.6 million. The abusive and misleading lending practices of predatory lenders have worked to reverse the progress made by NHS and NWOs across the country. As our organizations are working to encourage homeownership, and help low income people build assets – predatory lenders are working to strip these homeowners of their equity and promoting financial products that erode individual's assets.

Differentiating predatory lending from responsible subprime lending must be done carefully. NHS is committed to working with low- and moderate-income individuals who for a variety of reasons, including poor or non-existing credit histories or unstable employment background, are unable to secure conventional mortgage financing. In efforts to promote responsible lending NHS works to provide the customers with a range of financial services and products to enable them to become homeowners. We do this both as direct lenders as well as by working with conventional lenders.

We believe that the proposed rules must go further to ensure that this type of responsible lending is encouraged while at the same time putting an end to the practices that are clearly abusive and not developed with the well being of the consumer in mind – such as charging of excessive fees, loan flipping, pre-payment penalties and other abusive lending practices.

We encourage the agencies to change the proposed predatory lending standard. The proposed rule specifies that predatory lending will be indicated by way of foreclosed value of the collateral, instead of the ability of the borrower to repay. While this does address the most destructive form of predatory lending – those ending in foreclosure – it does not adequately cover all cases of predatory lending.

We believe that all lender affiliates should be subject to CRA evaluation. Affiliates can erode investments made by its parent company. While the parent company meets its CRA obligation, an affiliate can erase those gains with abusive lending practices, resulting in a zero-sum game. This alternative financing system cancels out CRA's goal – that of meeting lower income communities' credit needs. We encourage that the agencies to include all affiliates loans when evaluated the CRA performance.

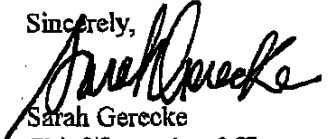
SMALL INSTITUTIONS

We oppose changing CRA regulations to allow banks with between \$250 and \$500 million to opt out of the investments and services test that is currently required of all banks with \$250 million or more in assets.

We believe that changing the definition of small institutions will decrease bank investments and services currently available in low- and moderate-income communities and will have a particularly negative impact on underserved communities that are particularly reliant on the activity of smaller financial institutions.

Thank you for your attention to this critical matter.

Sincerely,



Sarah Gerecke
Chief Executive Officer

Cc:

National Neighborhood Housing Network
President George W. Bush
Treasury Secretary John W. Snow
Congresswoman Nydia M. Velazquez (12th District, NY)