From: Bill Perkins [billperkins@wphd.org]
Sent: Tuesday, April 06, 2004 11:31 AM
To: Federal Deposit Insurance Corporation; Federal Reserve Board; Office of the Comptroller of the Currency; Office of Thrift Supervision
Subject: Comments on Proposed Changes to CRA Regulations

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
Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Mr. 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 Regulators:

The Wisconsin Partnership for Housing Development, Inc. respectfully requests that you reconsider the proposed changes to the Community Reinvestment Act (CRA) regulations. As I'm sure you agree, CRA has been extremely important as an incentive for sound investments in expanding affordable housing options and home ownership. It has also helped to stimulate investments in job creation and entrepreneurship in low and moderate income and minority communities. We believe that the proposed changes to the CRA regulations changes are also inconsistent with the Administration's stated goals of improving the economic status of immigrants and creating 5.5 million new minority home owners by 2010.

"Small" banks are extremely important to housing and economic development in Wisconsin. We are a state distinguished by a vital role for smaller, independent lending institutions. In 1990, I was appointed by President George H.W. Bush as the first "community interest director" on the Federal Housing Finance Board. I served in that capacity through 1993, and oversaw the implementation of the Affordable Housing Program and other community reinvestment initiatives within the Federal Home Loan Bank System. That experience reinforced my awareness of the critical importance of CRA in encouraging lenders to fully consider ways in which they can contribute to community development. In my role on the Finance Board, I was an outspoken advocate for ensuring the financial health and competitiveness of smaller community-based thrifts and banks, because I believe they play a unique role in the nation's credit framework. Because of their unique role, I also believe we need to maintain a strong role for those institutions in community reinvestment.

I offer some more specific comments:

- Under current CRA regulations, 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 to the regulations would eliminate the investment and service tests for banks and thrifts with assets between $250 and $500 million. Over 1,000 of those banks account for more than $387 billion in assets. In my own organization's work as a developer of affordable housing and as a provider of HUD-funded technical assistance to other nonprofit developers, we have made extensive use of Low Income Housing Tax Credits. LIHTCs are a valuable tool, but their complexity can be daunting to smaller banks and thrifts in their roles as both lenders and investors. The investment test is an important incentive to smaller banks and thrifts who, in turn, are particularly important sources of capital in smaller communities and rural areas. Services such as branches, checking accounts, Individual Development Accounts (IDAs) and debit card services, which are addressed by the service test, are also of crucial importance to communities where small banks and thrifts have a vital role.
- We believe that the proposed standards with regard to predatory lending in the regulations need substantial improvement. The proposed changes provide that loans based on the foreclosure value of the collateral rather than the borrower's ability to repay may be grounds for lower CRA ratings. That standard is unquestionably an important indicator of predatory lending. However, there are other that are equally important. They include excessive fees, sale of unnecessary ancillary products in connection with the loan, "packing" of fees into mortgage loans, high prepayment penalties, "flipping," mandatory arbitration, and other abuses. A more comprehensive anti-predatory lending standard should also apply to all loans made by the bank and all of its affiliates, and not only to loans secured by real estate made by a bank or thrift in its assessment area.
- The proposed changes to the regulations provide that the regulatory agencies will publicly report the specific census tract location of small businesses receiving loans, in addition to the other small business data reported under the current

regulations. The proposed regulations also provide for separately reporting purchases and loan originations, and separately reporting high cost lending. Those are good changes, but we believe they could be further improved. We believe that regulators should also give less "credit" in CRA exams to high cost loans and loan purchases, compared to lower-cost (or "prime") loans and direct loan originations.

- The proposed regulations could close important loopholes in the existing CRA regulations. Under current regulations, including affiliates in CRA exams in an option for regulated lenders. That option can allow lenders to exclude affiliates that do not serve low and moderate income borrowers and affiliates that may be engaged in predatory lending, thereby "skewing" the results of CRA examinations. We believe that all affiliates of regulated lenders should be included in examinations.
- Finally, we believe that the proposed changes to the regulations should provide that a lender's assessment area all of the areas in which the lender does business, and not simply the areas near branches.

Thank you for your consideration of these comments and suggestions.

William C. Perkins
Executive Director, The Wisconsin Partnership for Housing Development, Inc.
121 S. Pinckney Street, Suite 200, Madison, WI 53703
Phone: 608-258-5560, Ext. 23 Fax: 608-258-5565
E-mail: billperkins@wphd.org