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Evans, Sandra E

From: Romona Taylor Williams [trc@ntelos.net]
Sent: Saturday, October 13, 2001 4:10 PM
To: regs.comments@ots.treas.gov
Subject: REDEEM's public comments on Docket No 2001-49

October 13, 2001

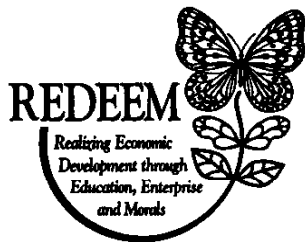
To Whom It May Concern:

On behalf of the board of directors of Realizing Economic Development through Education, Enterprise and Morals, REDEEM and its constituents we present the attached comments.

Sincerely,

Romona Taylor Williams
Executive Director

10/15/2001



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"Transforming Communities through Grassroots Community and Economic Development"

October 11, 2001

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
RE: Docket No. R-1112

Dear Ms. Johnson:

Realizing Economic Development through Education, Enterprise and Morals, REDEEM, is a constituency based community/economic development corporation that works to empower low income and minority citizens to revitalize their communities and build wealth through asset development. Our mission is accomplished through the employment of a comprehensive and holistic paradigm to community and economic development. Fifty-one percent of REDEEM's governing board are the poor and working poor, mostly single women raising their children on below poverty wages.

REDEEM and its constituents strongly believe that the Community Reinvestment Act (CRA) has served as a valuable community development tool for increasing access to loans and investments for low income and minority communities across the country. The regulatory changes to CRA in 1995 strengthened the law by emphasizing a bank's performance in making loans and investments. To further assist grassroots organizations such as REDEEM to successfully move the socially and economical marginalized sector into the mainstream of asset development, the federal banking agencies must now update the CRA regulations; not only to preserve the gains in lending to low- and moderate-income individuals and communities but to expand asset and wealth development opportunities to encompass a wider market share.

The results of the positive changes to the CRA regulation in 1995 are significant. The Department of Treasury's study on CRA found that lending to low- and moderate-income communities are higher in communities in which banks have their CRA assessment areas than in communities in which banks are not examined under CRA. In Charleston, WV CRA has made possible, although minimal, an increase in lending to minorities and LMI individuals as a whole.

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To preserve the community development progress that has resulted from increased community reinvestment, the federal banking agencies must update CRA to take into account the revolutionary changes within the financial industry. The Gramm-Leach-Bliley Act of 1999 allowed mergers among banks, insurance companies, and securities firms. Banks and thrifts with insurance company affiliates are now aggressively training insurance brokers to make loans. Securities affiliates of banks currently offer mutual funds with checking accounts. Mortgage company affiliates of banks continue to make a significant portion of their total loans, often issuing more than half of the loans of the parent lending institution.

The CRA regulation now allows banks to choose whether the lending, investing, or service activities of their affiliates will be considered on CRA exams. REDEEM strongly urges the regulatory agencies to mandate that all lending and banking activities of non-depository affiliates must be included on CRA exams. This change would most accurately assess the CRA performance of banks that are spreading their lending activity to all parts of their company, including mortgage brokers, insurance agents, and other non-traditional loan officers. Ending the optional treatment of affiliates also stops the manipulation of CRA exams and makes exams more consistent in their scope. Currently, banks can elect not to include affiliates on CRA exams if they make predatory loans or if they make loans primarily to affluent customers.

The CRA procedures for delineating assessment areas also need to be changed if CRA is to adequately capture the activities of banks in the rapidly evolving financial marketplace. Presently, CRA exams scrutinize reinvestment performance in geographical areas where banks have branches and deposit-taking ATMs. Banks are increasingly using brokers and other non-branch platforms to make loans. As a result, CRA exams of large, non-traditional banks scrutinize a tiny fraction of bank lending. This directly contradicts the CRA statute's purpose of ensuring that credit needs in all the communities in which a bank is chartered are met. REDEEM believes that the CRA regulations must specify that a bank's CRA exam will include communities in which a great majority of a bank's loans are made.

If CRA exams hope to keep pace with the changes in lending activity, REDEEM and its constituents, who are majority minorities, strongly believe that CRA exams must rigorously and carefully evaluate subprime lending activities. The CRA statute clearly states that lenders have an affirmative obligation to serve communities in a safe and sound manner. Subprime lending is both unsafe and unsound for minority communities in particular. Such debase lending practices deny and strip future generations of minority children of their inheritance and subsequently deplete the wealth of minority communities.

CRA exams must be conducted concurrently with fair lending and safety and soundness exams to ensure that lending is conducted in a non-discriminatory and non-abusive manner that is safe for the institution as well as the borrower. We applaud a recent change to the "Interagency Question and Answer" document stating that lenders will be penalized for making loans that violate federal anti-predatory statutes. This Question and Answer must become part of the CRA regulation.

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REDEEM believes that lenders should be encouraged to make as many prime loans as possible since prime loans are more affordable for the low-and moderate-income borrower. There is significant evidence that a disproportionate number of minority creditworthy borrowers are receiving over-priced subprime loans. CRA exams should provide an incentive to increase prime lending by stipulating that lenders who make both prime and subprime loans will not pass their CRA exams unless they pass the prime lending part of the exams.

The CRA regulations must be changed so that minorities are explicitly considered on the lending test just like low- and moderate-income borrowers. Considerable research has revealed the domination of subprime lenders in refinance and home equity lending in minority communities. Such imbalanced lending practices leave minorities with few alternatives to high cost refinance lending products. If minorities were an explicit part of the lending test, CRA exams would stimulate prime lending opportunities in communities of color; and, thus begin to balance the disparities between the prime and subprime markets.

Segments of the banking industry will seek to weaken the CRA regulations and examinations. They will ask for the elimination of the investment test on large bank exams. They will also urge that more banks be allowed to qualify for the streamlined small bank exam and for the streamlined wholesale and limited purpose exam. REDEEM opposes the elimination of the investment test since there are many pressing needs for investments in low-and moderate-income communities, especially communities that are primarily concentrated with people of color. Also, the present CRA exams are reasonable and are not burdensome for banks. Allowing more banks to qualify for streamlined exams will simply weaken CRA enforcement. Such measures will have a negative impact on grassroots community and economic development entities, such as REDEEM, as we struggle to preserve our communities from urban gentrification, rebuild our neighborhoods; and, move the marginally aligned into the mainstream of asset and wealth development. This, we believe, is the best alternative to alleviating the root cause of poverty.

We urge the regulatory agencies to adopt these additional policies:

- * Purchases of loans must not count as much as loan originations since making loans is the more difficult task.
- * The emphasis on quantitative criteria must remain in CRA exams. If the bank's "qualitative" or "innovative" programs produce a significant number of loans, investments, and services, the bank will perform well on the quantitative criteria. Banks must not receive an inordinate amount of credit for an "innovative" program that does not produce much in terms of volume and outcomes.
- * The Federal Reserve must enact its proposed HMDA reform to include information on interest rates and fees so that subprime lending can be

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assessed on CRA exams. The CRA small business data must include information on the race, gender, and specific revenue size of the borrower and the specific census tract location of the business and if the businesses actually benefit residents within the specified census tracts.

- * The service test must be enhanced by data disclosure regarding the number of checking and savings accounts by income level of borrower and census tract.
- * Low and high satisfactory ratings must be possible overall ratings as well as ratings for the lending, investment, and service test of the large bank exam. Banks must be required to submit improvement plans subject to a public comment period if they have ratings of low satisfactory or below. Currently, banks are only required to submit improvement plans to their public file if they fail CRA exams.

REDEEM believes that our suggestions for updating the CRA regulation will produce CRA exams that are rigorous, performance-based, more consistent, and that are able to better capture the lending, investment, and service activity of rapidly changing banks.

This review of the CRA regulations is so vital that we urge the regulatory agencies to hold hearings around the country when they propose specific changes to the CRA regulation. It is vital that the federal banking agencies hear the diverse voices of America's communities as they consider a regulation that ensures that community credit needs are being met.

Thank you for your consideration.

Sincerely,

Romona Taylor Williams
Executive Director