



## National Neighborhood Housing Network

### Board of Directors

**Richard Stallings**, President  
*Pocatello, ID*  
**Francine Justa**, Vice President  
*New York, NY*  
**Bruce Gottschall**, Treasurer  
*Chicago, IL*  
**Isay Gulley**, Secretary  
*Clearwater, FL*  
**Pam Canada**  
*Sacramento, CA*  
**Amancio Chapa**  
*Mission, TX*  
**Janice Forte**  
*Utica, NY*  
**Rose Garcia**  
*Las Cruces, NM*  
**Phil Giffey**  
*East Boston, MA*  
**Martina Guilfoil**  
*Inglewood, CA*  
**William Hale**  
*Ravenna, OH*  
**Robert Jodon**  
*San Antonio, TX*  
**Peg Malloy**  
*Portland, OR*  
**James Paley**  
*New Haven, CT*  
**Gerald Shechter**  
*Kansas City, MO*  
**Pat Stephenson**  
*Lafayette, IN*  
**William T. Sullivan**  
*Denver, CO*  
**Sarah Lynn Talley**  
*Elkview, WV*  
**Ron Walker**  
*Atlanta, GA*  
**Alton West**  
*LaGrange, CA*  
**Ron Woolwine**  
*Hamilton, OH*

160

October 17, 2001

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, DC 20429

To Whom It May Concern:

On behalf of the National Neighborhood Housing Network, I wish to respond to the Advance Notice of Proposed Rulemaking (ANPR) regarding the Community Reinvestment Act (CRA). CRA has been an invaluable resource to our nation's communities and we have a few comments to make in response to the ANPR.

The National Neighborhood Housing Network (NNHN) is a network of 120 NeighborWorks® Organizations nationwide that work to improve housing for low- to moderate-income Americans. These organizations use federal funding from the Neighborhood Reinvestment Corporation to leverage private dollars in order to create new homeowners, revitalize distressed communities, and build single family and multi-family housing.

CRA has been a critical tool for NeighborWorks® organizations by facilitating our ability to develop creative bank partnerships that have been beneficial to banks, the organizations themselves, and low-income communities. CRA has been a significant impetus for bank involvement in community revitalization efforts, and has changed neighborhoods. More minorities and low-income households now have access to the credit they need to own their own homes.

With the passage of CRA, banks were barred from withholding services from communities based on income and race. The impact of CRA has been significant. In fact, in 1999, Federal Reserve Governor Edward Gramlich estimated that CRA-related home, small business, and economic development loans totaled \$117 billion annually.

Owning a home leads to not only stability and security for individuals and families but also contributes to the greater stability and security of our nation's communities as the tax base is strengthened, the business

page 2 of 5 / National Neighborhood Housing Network

environment stabilizes, and wealth in the community grows. However, the full benefit of home ownership accrues to communities only if these homes become secure investments with the potential for asset accumulation for the home owner.

NNHN's members are responsible "subprime" lenders that work with low- and moderate-income individuals. Our clients are often unable to secure conventional mortgage financing for a variety of reasons, including poor or non-existent credit histories or unstable employment backgrounds. As responsible subprime lenders, we work with our clients to create loan products with clear terms that are understood by and appropriate for the borrower. In addition to our direct lending, we partner with banks to enable them to reach into our markets. For example, we provide second mortgages through our Section 8 Homeownership program. With this and other products, we appropriately compensate the lenders for any risk they are taking on.

Without the involvement of conventional lenders, the low-income communities we serve can often become victims of predatory lending. Predatory loans become their only access to credit. It is vital that CRA remain a strong incentive for banks to invest and participate in these markets to ensure that individuals have access to appropriate and affordable credit and other basic services.

NNHN members have developed and maintained extensive partnerships with conventional banks. Bank representatives serve on our boards, along with other funders and community leaders. Banks provide grants and loans to capitalize our revolving funds, and often provide the first mortgages for our clients. Our local banks thus play a strong role in assisting our neighborhoods.

With regard to the ANPR, we have four primary concerns that are critical in assuring that CRA remain an effective incentive to banks serving low-income communities.

1. Maintain the integrity of all three tests: lending, investment and servicing;
2. Examine the quality of loans to assure they are not predatory;
3. Cover all of a bank's work in the evaluation of its "assessment area;" and
4. Maintain the definition and measurements of "community development activities."

**1. Maintain the integrity of all three tests: lending, investment, and servicing.**

In the ANPR, the agencies ask whether the three CRA tests should be combined into one. NNHN believes that it is important to maintain the three tests to ensure that banks are addressing the full range of services needed in low-income communities. These services include loans, equity investments, and retail banking services.

These three tests measure different ways that banks are expected to serve their markets, including underserved markets. The value of lending is immediately apparent, but investments and services are also vital components of community development. Investments – like grants and equity – build community strength. Federal Reserve Chairman Alan Greenspan, and members of

the Clinton and Bush Administrations have all stressed the need for venture capital and other investments in our low-income rural and urban areas. Banks need a distinct incentive to invest in

page 3 of 5 / National Neighborhood Housing Network

community development financial institutions (CDFIs) and other community development loan pools, which make loans carrying risk that banks may not be able to handle. With the incentive of CRA, and assistance by our members, these areas can be reached.

Retail banking services are also vital to maintain a community's health. With access to such services, members of the community are able to conduct personal business with their checking and savings accounts without the concern of exorbitant fees. Without access to basic banking, families must resort to check cashing establishments or other high cost financial transactions, and end up paying more for less. CRA's servicing test must remain independent to keep these services available. Something as simple as a legitimate banking account can mean survival for a poor family. All banks that provide retail banking services should be evaluated for their service to low-income people. Banks that are affiliated with predatory check cashing firms or others depleting equity in these communities should receive lower ratings for their services.

## **2. Examine the quality of loans to assure they are not predatory.**

NNHN supports subprime lending to ensure that all consumers have access to credit; however, we do not support lending with predatory rates, meant to deplete equity in the community. Banks should not be given credit for making predatory loans. Therefore we support monitoring the quality of loans that qualify for CRA credit.

There is a distinct difference between subprime lending and predatory lending. Whereas subprime lending takes a borrower's potential risk into account and provides manageable lending rates, predatory lending includes tactics that purposefully damage a borrower's equity and credit, enabling the lender to take advantage of the borrower. These tactics often end in borrowers' losing their homes.

Predatory loans can have any number of abusive or deceptive characteristics. Frequently these loans include one or more of the following features:

- excessive interest rates, fees and closing costs, which are often hidden in fine print;
- onerous conditions and terms of repayment, such as penalties for paying off the loan early or large balloon payments at the end of the loan term;
- mortgage loans to homeowners without verification of income or regard to whether they can afford to pay the loan back; and
- marketing through deceitful or unfair practices, such as last minute changes to loan terms or inadequate disclosure of the loan terms.

It is not just the presence of these loan features that qualifies a loan as a predatory loan - but also the manner in which the financing is targeted specifically to vulnerable consumers. Loans that carry these features should not receive CRA credit.

page 4 of 5 / National Neighborhood Housing Network

As the Executive Director of PNHS HomeOwnership Center in Pocatello, Idaho, I have seen the damage that predatory lending practices can have on a vulnerable home owner. We were recently involved in a predatory lending settlement negotiation between a local home owner and a subprime lender, The Associates. The problems began when the home was appraised at 100 percent over the actual value of the home. They then continued with heavy points and fees: 7.4 percentage points on the loan, a non-credit insurance fee of \$1,135, an interest rate of 16.44 percent, and an annual percentage rate of 18.5 percent.

At the request of the City of Pocatello and the home owner, PNHS became involved. The homeowner had responded to a home improvement flyer distributed by the City of Pocatello soliciting homeowners interested in rehabilitating their home. Upon inspection of the home, the city inspector diagnosed several structural concerns with the home and referred the homeowner's file to the city construction department. As a result of further inspection, the home was condemned. An independent appraiser indicated that the structural damage to the home was evident at the time of the sale in 1996 to the home owner in question.

After ongoing negotiations with The Associates, who were initially unresponsive and uncooperative for months, an agreement was finally reached. The Associates agreed to allow PNHS to purchase the property and buy out the homeowner's loan. The Associates also agreed to report the homeowner's account as current to all credit reporting agencies.

PNHS and the City of Pocatello have worked to place the family into a transitional housing program. We continue to provide housing counseling and are hopeful she will be able to purchase another home at a later date.

The Associates and other sub-prime lending agencies maintain a heavy presence and a substantial client base in eastern Idaho. The PNHS experience with The Associates indicates the loan package described above, while inconsistent with traditional lending practices, is standard practice for these sub-prime lenders.

### **3. Cover all of a bank's work in the evaluation of its "assessment area".**

Currently only brick and mortar locations are evaluated for CRA credit. NNHN believes that all of the areas and customers covered by a bank's work, including phone and internet services, should be included as well. This type of evaluation provides a more accurate picture of a bank's practices, including whether there are discrepancies in its activities and services provided to different areas. An assessment area should include any area in which the bank takes a significant portion of its deposits or makes a significant portion of its loans.

It is also important that a bank's affiliates' work be included in the evaluation. Currently, the bank has the option of whether to include or exclude its affiliates. A bank that is benefiting from the operations of its affiliates should also be accountable for these operations. A good example is Citigroup and its affiliate, The Associates. Citigroup operates primarily in larger metropolitan areas, providing prime lending products. The Associates has a large rural network to which it provides subprime lending, as demonstrated through the example above in eastern Idaho.

page 5 of 5 / National Neighborhood Housing Network

Citigroup is under no obligation to report the rural network as part of its assessment area, and therefore does not report the level of subprime lending occurring there. Rural areas, in this example, and other areas are victims of this type of redlining, the exact type of discrimination that initially sparked CRA.

**4. Maintain the definition and measurements of community development activities.**

NNHN believes the agencies should resist broadening the definition of community development activities to include more bank activities. Under the current regulations, "community development" means affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing small businesses and farms; and activities that revitalize or stabilize low- or moderate-income geographies.

If this definition were broadened to include other activities, NNHN members believe that the intent of these activities would be diluted, reaching fewer low-income families and communities. As with our first recommendation to maintain the integrity of the three tests (lending, investment, and servicing), we recommend keeping this definition intact to assure that the intended recipients are served.

As proponents of neighborhood revitalization and providers of responsible subprime lending, we believe that CRA is a strong force in our communities. The agencies should strengthen CRA by maintaining some of its most important tests, including investment and services, and by improving its definitions, including assessment areas and community development activities. Predatory lending is a growing concern in the nation, and the agencies have shown their concern about it as well. The agencies should act on their concern by prohibiting banks from receiving CRA credit for predatory loans.

We look forward to working with you to assure that CRA remains a vital asset to building our communities.

We appreciate your time and attention to this matter.

Sincerely,

**Richard Stallings**  
**President**