

October 15, 2001

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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

Communications Division
Public Information Room
Mailstop 1-5
Office of the Comptroller of the Currency
250 E St. SW
Washington DC 20219
RE: Docket No. 01-16

Robert E. Feldman
Executive Secretary
Attention: Comments/OES
Federal Deposit Insurance Corporation
550 17th St. NW
Washington DC 20249

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G St. NW
Washington DC 20552

To Whom it May Concern:

Mission Economic Development Association (MEDA) believes that the Community Reinvestment Act (CRA) can be instrumental to increasing lending and investment in low-income communities like ours. The regulatory changes to the CRA in 1995 were significant, but federal banking agencies must further strengthen the CRA to make it a worthwhile incentive for banks to better understand, and as a result better serve, the low-income areas and communities of color that exist within their service areas.

MEDA is a non-profit community-based corporation serving the low-income and predominately Latino Mission District neighborhood of San Francisco, California. Our goal is to facilitate appropriate and equitable economic development by combining technical assistance to individual members of our community with a broader community planning approach to galvanize and empower the neighborhood around shared issues. We work with small businesses and potential homeowners to facilitate their access to

capital and thus build and expand upon the assets that are owned and kept within the community. We work directly with lending institutions on behalf of our clients, and see first hand the inadequate attention given to communities like ours by an increasingly consolidated banking industry.

MEDA's primary concern regarding the CRA is how the assessment area is defined. In densely and diversely populated areas like San Francisco (and most of the state of California, for that matter), the definition of LMI areas is entirely inadequate. These broad areas that are used to record the CRA loans and investments are not specific enough to address the pockets of poverty that exist within LMI areas, with the Mission District being a prime example. MEDA suggests that groups of contiguous census tracts be used to define what are CRA loans and investments. Furthermore, there is no way to guarantee that a loan or investment in the designated area has been received by a low or moderate income individual. MEDA recommends that banks be required to track and report on individual borrower's income to ensure that these substantially populated low-income areas are being served equitably by banks that are chartered to serve them.

After suitable investment areas are established to include the small but densely populated areas of disinvestment, a linkage must be formally established between deposits from a certain economically disadvantaged area to the level of lending and investment in that same area. This is the fundamental issue underlying disinvestment that has so adversely impacted communities like the Mission District. Federal banking agencies must develop a standard of measuring the level of deposits from a specific area, and thus determine what is an equitable and prudent level of lending and investment to this same area that the deposit base comes from. This type of analysis is essential to ensuring that disadvantaged communities retain and build upon the substantial assets that already exist within their community.

Furthermore, basing an assessment area on where an individual financial institution has a physical presence (i.e. a branch or ATM) does not reflect the radically transformed banking industry. MEDA believes, at the very least, that the CRA assessment areas should be based on where a bank has a certain amount of lending activity; for if the bank is earning interest income from loans in a certain area, it should be held accountable for serving the broader needs of that area. At the same time, brick and mortar branches provide critical access to financial services for low income and people of color, and should be rated highly in the CRA exam.

In addition to defining the assessment area, MEDA would like to point out the following other suggestions regarding the CRA:

- Banks should breakout their lending activity by ethnicity, for both business lending and home mortgages. This will allow regulators to assess the banks ability to develop products that meet the unique needs of different communities of color.
- Purchases of loans should not count as much as loan originations on the CRA exams, since it is essential that banks remain vigilant in developing lending

products that meet the needs of their entire assessment area. At the very least, purchases of loans should only be counted in the investment test, but not the lending test.

- In terms of business lending, MEDA would like to see how many business loans a bank has made for under \$100,000 without using credit scoring criteria as a part of its exam. This type of lending activity is an indication of the banks commitment to developing flexible underwriting criteria that better serve the diverse yet vital small business community within their assessment areas.
- In terms of mortgage lending, MEDA would like to see the Federal Reserve Board enact its proposed HMDA reform to include information on interest rates, fees, *and* down payment requirements. This will not only allow examiners to better assess the relevancy of the lending product to underserved communities, but also to identify predatory activities such as subprime lending that must be excluded from CRA assessment.
- Other predatory services, such as payday lending and check cashing, must not count on the CRA exams.

MEDA would like to commend the federal government for implementing the Advance Notice of Proposed Rulemaking, and thank the federal banking agencies for the opportunity to voice our recommendations. MEDA strongly believes that the CRA must be strengthened to maintain any relevancy and potency, and is willing to work with financial institutions as best it can to ensure that any changes are not overly burdensome.

We also believe that that the review of the CRA is so essential, that we would urge the regulatory agencies to hold public hearings around the country, especially after specific changes have been proposed. This will not only allow voices from disadvantaged communities to speak of their concerns, but will also provide a an opportunity for the broader public to better understand the CRA and its indispensable role in creating an equitable economy for all.

Thank you, again, for your consideration of our comments regarding the CRA, and if you would like further information on MEDA or our ideas around CRA, please do not hesitate to contact me at 415-282-3334 x13 (amurphy@medasf.org). If you have received this letter via e-mail, we will be mailing you a hard copy shortly.

Sincerely,

Andrew G. Murphy
Business Assistance Manager

cc: Alan Fisher, California Reinvestment Committee (CRC)
cc: Lawrence C. Broadwell, National Community Reinvestment Coalition (NCRC)