MON VALLEY INITIATIVE
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"Working Together To Unite Communities and Restore the Economic Vitality of the Mon Valley"

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October 16, 2001

Dear Federal Reserve Board:

The Mon Valley Initiative believes that the Community Reinvestment Act (CRA) has been instrumental in increasing lending and investing to our community and many others around the country. The regulatory changes to CRA during 1995 strengthened the law by emphasizing a bank's performance in providing services and in making loans and investments. The federal banking agencies must now update the CRA regulations in order to further reinvestment in low and moderate-income communities as well as under-served minority communities.

The results of the positive changes to the CRA regulation in 1995 have been significant. The Department of Treasury's study on CRA found that the lending to low and moderate income communities is higher in communities in which banks have their CRA assessment areas than in communities in which banks are not examined under CRA. In our community, CRA has made possible mortgages to low to moderate first time homebuyers. These new homeowners are able to participate in the Mon Valley Initiative's Rehab for Resale program. This program removes vacant, abandoned houses from the delinquent tax rules and reinstates them as assets to the municipality and the neighboring homeowners.

To preserve the progress in community reinvestment, the federal banking agencies must update CRA to take into account the revolutionary changes in 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 offer mutual funds with checking accounts. Mortgage company affiliates of banks continue to make a significant portion of the total loans, often issuing more than half of a bank's loans.

The Mon Valley Initiative believes that lenders should be encouraged to make as many prime loans as possible since prime loans are more affordable for minority and low and moderate income borrowers. Significant research concludes that too many creditworthy borrowers are receiving over-priced and discriminatory subprime loans. CRA exams must provide an incentive to increase prime lending. Mon Valley Initiative proposes that lenders that make both prime and subprime loans will not pass their CRA exams unless they pass the prime part of their 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. This lopsided market confronts minorities with few alternatives to high cost refinance lending. If minorities were an explicit part of the lending test, CRA exams would stimulate more prime lending in communities of color.

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. Mon Valley Initiative opposes the elimination of the investment test since low and moderate income communities continue to experience a shortage of equity investments for small business and other pressing economic development needs.

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.

We urge the regulatory agencies to adopt these additional policies:

- Purchases of loans must not count as much as loan originations on CRA exams since making loans is the more difficult task. The lending test must receive primary emphasis because redlining and "reverse" redlining, or predatory lending, remain serious problems in working class and minority neighborhoods.
- The emphasis of 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 or practice that does not produce much in terms of volume.
- The Federal Reserve Board must enact its proposed HMDA reform to include information on interest rates and fees so that subprime lending can be 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.
- The service test must be enhanced by data disclosure regarding the number of checking and savings accounts by income and minority level of bank customer and census tract. Payday lending is abusive and must not count on CRA exams. The cost of services must be a factor on CRA exams since high fee services do not meet "deposit" needs and strip consumers of their wealth and savings. The service test must award the most points to banks that provide a high number of affordable services to residents of low and moderate income communities.
- 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.

- The Gramm-Leach-Bliley Act of 1999 prohibited banks with failing CRA ratings from expanding into the insurance and securities business. This provision of the statute must apply to the bank acquiring another institution as well as a bank being acquired. The Federal Reserve Board's interpretation of this provision allows a bank failing its CRA exam to be acquired by another institution. Under the Board's interpretation, a bank has little incentive to abide by CRA obligations if their chief executives and board are contemplating a sale of their bank.

Mon Valley Initiative 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. These recommendations lead to enhanced enforcement of CRA.

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 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,

Laura Richeson Zinski
Chief Executive Officer
Mon Valley Initiative