

January 24, 2005

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

Attention: No. 2004-53 & 2004-54

To Whom it May Concern:

Thank you for the opportunity to comment on the proposed changes to the Community Reinvestment Act.

The Community Reinvestment Act (CRA) in its current form has been and continues to be extremely important in helping increase access to credit for low-income communities and leverage private capital for the community development field. CRA has been instrumental in increasing access to homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities, both urban and rural.

CEI is a nonprofit community development corporation (CDC) and community development financial institution (CDFI) serving Maine. Our ability to help develop Maine's economy and create income, employment and ownership opportunities for low income people depends on our partnership with the banking system. Efforts currently underway by several regulatory agencies of the banking system – including the Office of Thrift Supervision – are threatening the very infrastructure of what has become a viable, productive business partnership and benefit to society, especially for people and communities left out of the economic mainstream.

We therefore urge you to withdraw your proposal and offer the following perspectives.

CEI Profile

For over 27 years CEI has sought out ways to improve access to capital for marginalized populations to provide affordable housing and access to decent employment for the people and places left out of the economic mainstream, and to align private capital markets with social investments benefiting communities, residents and the environment. We have loaned, leveraged and invested nearly \$600 million to 1,400 businesses. We have created 700 units of affordable rental, supported and homeownership housing. We have helped create and sustain job opportunities for over 16,000 individuals. We have also provided business counseling to 20,000 fledgling enterprises, many of whom become bank customers. In addition, our venture capital and new markets tax credit (NMTC) programs serve parts of Northern New England and upstate New York. We have a substantial housing development program that provides affordable housing for residents of mid-coast Maine.

OTS Proposal

CEI is particularly concerned by the OTS's proposal to effectively eliminate the investment and services test for banks over \$1 billion in assets. Although this will not effect Maine's Thrifts at this point in time, we are concerned that nationally a large Thrift can choose to eliminate or substantially reduce its investment and service tests, leaving only the lending test as a measure of community activity. Furthermore there may be a point in the future, due to mergers and acquisitions, where OTS regulations for large banks could affect Maine. We urge the OTS to reconsider its proposal and to maintain these invaluable parts of the CRA test. The consequences particularly for rural America, could be substantial and include derailing current progress made in spurring investment in affordable housing and low-income community businesses in such areas.

The importance of maintaining **both the lending and investment tests** for large banks over \$1 billion in assets

Congress enacted CRA in order to prevent redlining and disinvestment of low- and moderate-income communities. Under the OTS proposal, large Thrifts would suffer no CRA penalty if they provide community development financing to affluent communities, while overlooking low- and moderate-income communities, in rural areas and areas impacted by natural disasters. For example, a high-priced housing or condominium development in a rural, coastal village could count toward CRA credit even though it does not target affordable housing for residents, and may even displace working waterfronts for fisheries and marine industries.

We do not consider therefore that this is in the spirit and intent of the Community Reinvestment Act and would like to see the maintenance of *strong investment and lending tests for large banks*. While there are currently no Thrifts that would be affected by the above proposal in Maine, there may be a time in the future where mergers and acquisitions could lead to a "large bank" Thrift operating in Maine. As well, typically regulatory agencies work in tandem and the OTS policy may be assumed by the FDIC, which does affect the majority of banks in Maine.

The importance of **increasing community input** in mergers

Contrary to your proposal where any discussions with your agency about CRA and anti-predatory lending matters when Thrifts are merging could be severely limited, we would like to see such interactions between community groups and your agency increased. Under current regulation, the OTS is required to hold two meetings to ensure that all facts and impacts of proposed mergers are thoroughly considered. Under the current proposal the OTS, at its own discretion, could hold only one meeting or even decline to hold a meeting. We consider this to be ill-advised considering certain research that has recently been completed by the National Bureau for Economic Research. According to the paper "Bank Mergers and Crime: The Real and Social Effects of Credit Market Competition"¹ published in December 2004, there is evidence that "*neighborhoods that experienced more bank mergers are subjected to higher interest rates, diminished local construction, lower prices, an influx of poorer households, and higher property crime in subsequent years.*"

We consider this to be significant evidence that should ensure community groups' participation in bank mergers since the communities themselves may be adversely affected. Community groups

¹ Bank Mergers and Crime: The Real and Social Effects of Credit Market Competition, December 2004, Garmaise, Moskowitz, National Bureau for Economic Research

often represent community interests and therefore increased opportunities to provide feedback on proposed bank mergers should be part of any OTS regulation changes.

Again, we urge you to withdraw this proposal which we strongly believe will undermine effective incentives embodied in the spirit of the Community Reinvestment Act for Thrifts to work for and with low and middle income communities.

Thank you for the opportunity to comment on the proposed changes to the Community Reinvestment Act. If you have any questions, please do not hesitate to contact either Hannah Thomas (hlt@ceimaine.org) or me (rlp@ceimaine.org) at the address above

Sincerely,

Ronald L. Phillips
President

Cc:

Coastal Enterprises, Inc. Board of Directors
Maine Attorney General Steven Rowe
National Community Reinvestment Coalition
President George W. Bush
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Senator Olympia Snowe
Senator Susan Collins
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Maine Bankers Association