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

January 19, 2005

Attention No: 2004-53 & 2004-54

To Whom It May Concern:

I am writing on behalf of the National NeighborWorks® Association (NNA) to voice opposition to the Community Reinvestment Act (CRA) rule changes proposed by the Office of Thrift Supervision (OTS). NNA was disturbed by the OTS decision to raise the asset limit for small thrifts from \$250 million to \$1 billion thus exempting many thrift institutions from the oversight of the three part CRA exam. The additional rule changes being proposed will go even further to weaken CRA by diminishing the power of the three-part CRA exam still required of large thrifts and by granting CRA credit for community development activities in rural areas whether or not the development benefits a low or moderate income population.

NNA is a national association of over 160 NeighborWorks® organizations (NWOs) that advocate for better neighborhoods and housing for low- and moderate-income individuals and families. Our member NWOs use Neighborhood Reinvestment Corporation funds to leverage private dollars in order to create new homeowners, revitalize distressed communities, and build single family and multi-family housing for low- to moderate-income families.

Since 1996 the NeighborWorks® Campaign for Home Ownership has assisted 70,000 households to become homeowners, 89 percent of whom were low- or moderate-income. In addition, our network provided homeownership counseling to over 420,000 individuals. These impacts could not have been achieved without the significant participation of our bank and thrift partners - as investors, lenders and service providers.

Banks and thrifts are vital partners in the work of NWOs and the incentive provided by CRA has been instrumental in building and maintaining these partnerships.

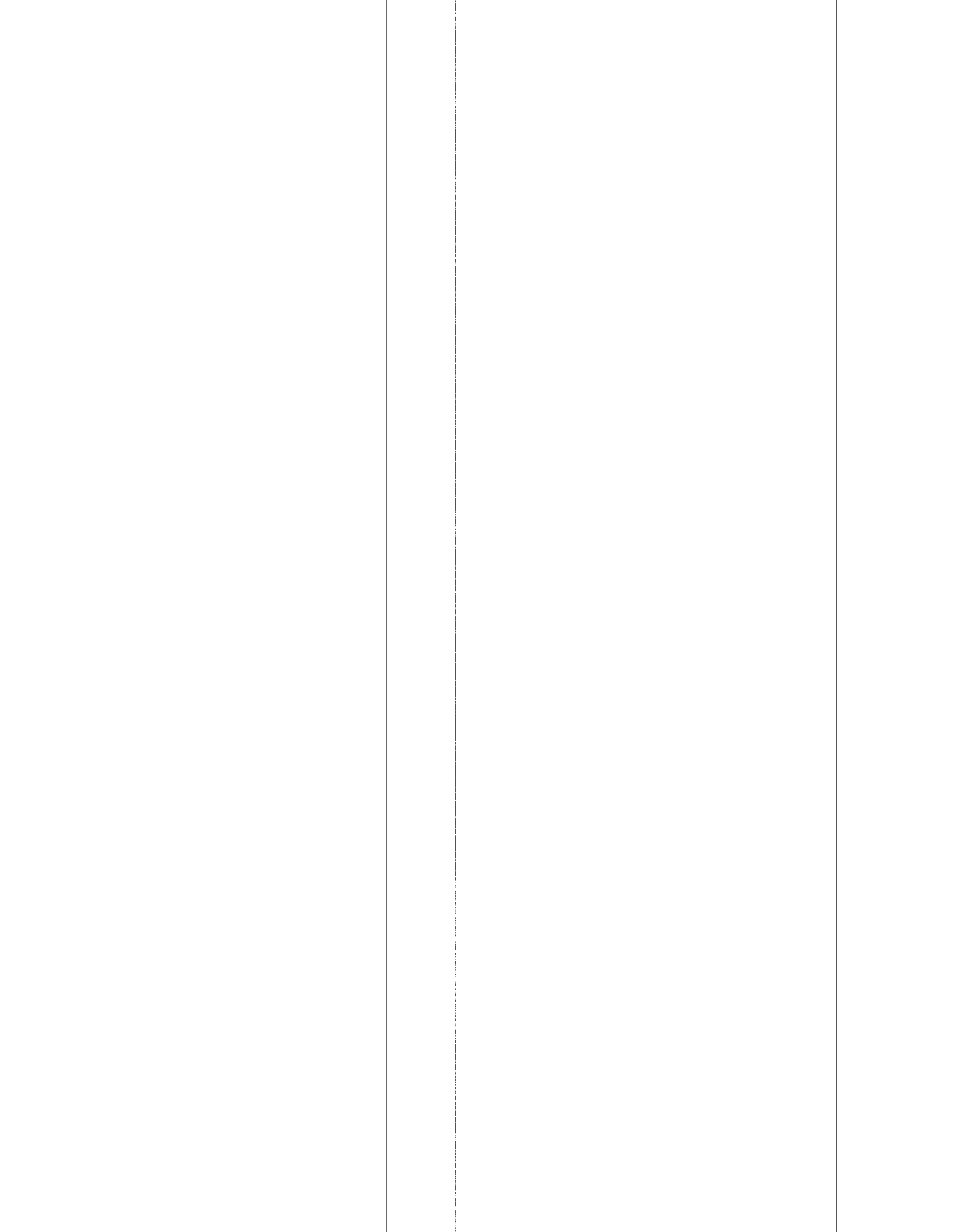
CRA provides an incentive for regulated financial institutions to reach out and develop relationship with NWOs and is a critical force in keeping these institutions committed to providing services and products designed specifically for low and moderate income consumers. While some institutions might continue to serve low

and moderate income markets without the incentive of CRA, we firmly believe that most would not.

Spurred by CRA requirements, lenders frequently work with NWOs to capitalize loan pools or create new financial products targeted to underserved market niches that banks on their own can not reach effectively. The CRA test encourages lenders to become involved in community education and financial literacy efforts and CRA has forced institutions, either directly or with the help of community based organizations, to make a range of financial services and products available to low and moderate income communities within their service area. For example:

- In New York City, lenders spurred by CRA will frequently work with Neighborhood Housing Services of New York City (NHS) to capitalize existing loan pools or to create new products specifically designed to target an underserved market niche. NHS created "The Consortia" by bringing together 15 banks and thrifts to pool their financial resources thus enabling NHS to develop a loan product targeted to low and moderate income homeowners and potential homeowners who could not qualify for conventional financing. Banks and thrifts participating in The Consortia are able mitigate the risk of reaching this market by pooling their funds and relying on the homeownership and financial counseling services provided by NHS. CRA was a critical leverage in organizing The Consortia and enabling NHS to offer loan products targeted to a low and moderate income market.
- In Reading, Pennsylvania, a lender looking to improve its CRA rating approached the Neighborhood Housing Services (NHS) of Reading to develop a new loan product designed to assist low-income families purchase and rehabilitate their homes. Although meeting a clear community need, the product held an implied greater risk for the bank and would not have been possible without the NHS partner or the CRA incentive...
- In Inglewood, California, lenders provide financial support for the "Financial Fitness" program operated by Inglewood NHS. Financial education is more important than ever as consumers are faced with a marketplace offering more products, different pricing and confusing variables. CRA credit is an important incentive to keep lenders funding these vital financial literacy programs.
- Affordable Housing Resources (AHR) in Nashville, TN relies on area banks to invest in a first mortgage loan pool that has provided over \$11 million in below market mortgages to low income buyers and moderate income persons buying in very low income census tracts. There are many NNA members that, like AHR, rely on bank investments to support loan pools that are designed to assist low and moderate income individuals and families become homeowners.

These are just a few examples of how NWOs in our NNA network use CRA to leverage and expand the availability of bank products and services in low and moderate communities. Our banking and thrift partners know that NWOs are solid



business partners and they are attracted to the opportunity to invest in loan pools and other programs designed to serve emerging markets that most conventional banks overlook. NWOs provide services and products that allow non-traditional borrowers to become homeowners and access the marketplace.

NNA (and its predecessor the National Neighborhood Housing Network (NNHN)) have publicly weighed in at every opportunity to comment on regulations governing the Community Reinvestments Act. We commented in 2001 when the joint advanced notice of proposed rule making was issued on CRA and again in 2004 when the joint notice of proposed rulemaking was published. At every opportunity we have urged OTS and other federal regulators to maintain the strength of current CRA regulations and have opposed proposals to decrease the number of institutions accountable to the three part CRA exam or any proposals that would to weaken the targeting of CRA investments to benefit low and moderate income individuals and communities.

We cannot support the proposed changes put forward by the OTS because we believe that in an effort to provide greater flexibility to thrifts, the core mission of CRA has been compromised.

In particular, NNA opposes the OTS proposal that *any* community development activity in a rural area be deemed as a qualified CRA activity. Though NNA shares OTS's concern that rural areas need greater access to financial capital and services, the proposed regulation would totally ignore the needs of low and moderate income individuals and communities.

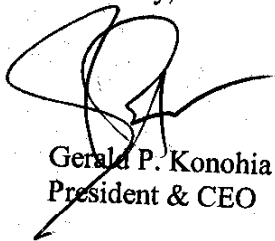
Many of our rural NWOs are already struggling with the loss of small and medium locally-controlled banks as the banking industry is consolidated through bank mergers. This trend has had a significant impact on low and moderate income communities and resulted in the loss of community lending programs and local loan officers and a reduction in community development resources as grant-making and lending decisions are made at bank headquarters in urban centers which are far removed from their rural customers.

We strongly urge the OTS to maintain the current three part CRA test for large thrifts. Without the incentive of the full CRA test, many thrifts will discontinue or drastically reduce the level of investment and services they provide to low and moderate income individuals and communities. The OTS proposal would grant thrifts the freedom to design their own CRA tests and determine the weight that would be given to lending, service and investment test. We are troubled by this proposal and believe it would lead to a decline in the willingness of banks participation in a range of service and investments activities that communities rely on. We firmly believe that all three activities are vital and banks should be required to engage in these activities throughout their service area.

CRA provides one of the few tools by which NWOs and other community based organizations can influence the merger process and we will oppose regulatory changes designed to allow more institutions to bypass the full CRA exam process.

I appreciate the opportunity to submit comments of the proposed rule on behalf of NNA. This letter was drafted using the collaborative efforts of the NNA membership, a listing of which follows. NNA membership strongly recommends that the proposed rule be withdrawn and that no action be taken on the current regulations governing CRA.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gerald P. Konohia', written over a printed name and title.

Gerald P. Konohia
President & CEO