

OFFICE OF THE COMPTROLLER OF THE CURRENCY
OFFICE OF THRIFT SUPERVISION
BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM
FEDERAL DEPOSIT INSURANCE CORPORATION

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JOINT PUBLIC HEARING
ON THE COMMUNITY REINVESTMENT ACT
REGULATIONS

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TUESDAY, AUGUST 17, 2010

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950 GRAND AVENUE
LOS ANGELES BRANCH
FEDERAL RESERVE BOARD OF SAN FRANCISCO
LOS ANGELES, CALIFORNIA 09915

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BEFORE:

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JOHN E. BOWMAN, Acting Director, OTS

THOMAS J. CURRY, Director, FDIC

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Adjourn

P R O C E E D I N G S

9:02 a.m.

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2
3 MR. WALSH: Good morning. I am
4 John Walsh, the Acting Comptroller of the
5 Currency for one day now. And I'm joined by
6 my colleagues, John Bowman, the Acting
7 Director of the Office of Thrift Supervision;
8 Thomas Curry, a Board Member of the Federal
9 Deposit Insurance Corporation; and Sandra
10 Braunstein, the Director of Community and
11 Consumer Affairs, Federal Reserve Board.

12 I'm pleased to welcome all of you
13 today to this hearing and I would like to
14 thank the Federal Reserve Bank of San
15 Francisco for making these excellent
16 facilities available to us.

17 This is the last of four public
18 hearings on the regulations implementing the
19 Community Reinvestment Act. This series of
20 hearings is being jointly sponsored by the
21 Office of the Comptroller of the Currency, the
22 Board of Governors of the Federal Reserve

1 System, the Office of Thrift Supervision, and
2 the Federal Deposit Insurance Corporation.
3 These agencies are responsible for drafting
4 regulations to implement the CRA and assessing
5 the record of institutions under their
6 supervision in helping to meet the credit
7 needs of their communities consistent with
8 safe and sound operations.

9 The purpose of these hearings is
10 to gather comments from the public, as the
11 agencies consider how to update the
12 regulations to reflect changes in the
13 financial services industry, changes in how
14 financial institutions deliver services to
15 consumers today, and current housing and
16 community development needs.

17 Today's hearing will be streamed
18 live to the web and the OCC will also post a
19 video recording and transcript of the
20 proceedings on our website.

21 These hearings solicit a range of
22 views on the CRA. The specific topics for our

1 hearing today are small business and consumer
2 lending evaluations and data, CRA disclosures,
3 and performance evaluations.

4 Our witnesses represent national
5 community organizations, academics, banks, and
6 regional economic and community development
7 entities. This hearing is also an opportunity
8 to address any issues of concern with how CRA
9 is interpreted and administered and provide us
10 with new ideas for modernizing it.

11 Most of us here today are quite
12 familiar with the original purpose of the CRA:
13 to expand access to credit and basic banking
14 services on a sustainable basis to home
15 owners, small businesses, and small farms, and
16 consumers in under-served communities in a
17 safe and sound manner. This objective is as
18 vitally important today, particularly given
19 the challenging economic environment, as it
20 was when CRA was first enacted.

21 Since its enactment 33 years ago,
22 the CRA has encouraged insured depository

1 institutions to meet the credit needs of their
2 communities, including low - and moderate-income
3 neighborhoods consistent with safe and sound
4 operations. And over the years since its
5 enactment, CRA has become an important
6 community development mechanism that brings
7 together banks, their customers, and community
8 stakeholders. These partnerships have helped
9 transform communities, expand sustainable
10 mortgage opportunities, and promote job
11 creation, small business expansion, and
12 economic development.

13 In addition, despite what the
14 critics of CRA have charged, CRA did not
15 contribute to the financial crisis. CRA in
16 its current form has accomplished much, but it
17 makes sense to consider whether and how CRA
18 can be made more effective. Some of the
19 proposals being discussed require legislation.
20 This point needs to be stressed. We are
21 limited by the boundaries of the current CRA
22 statute.

1 A number of good ideas that have
2 been proposed during the course of these
3 hearings, of which we have already had three,
4 would need to be acted upon by Congress and
5 are outside the authority of the regulatory
6 agencies at the moment. The regulators do
7 have discretion on flexibility in some areas,
8 but we must be mindful of the statutory
9 limitations.

10 We have an outstanding group of
11 witnesses today and we look forward to hearing
12 your views on updating CRA regulations, but we
13 will need to adhere closely to time limits for
14 your oral statements so that all the witnesses
15 have a fair opportunity to be heard over the
16 course of the day.

17 The full text of your testimony
18 will be included in the record. Witnesses in
19 the first three panels have five minutes to
20 speak. And in the last session this
21 afternoon, individuals who have asked to
22 testify will have three minutes to speak.

1 There is a timekeeper here in the front of the
2 room, Hershel, who will hold up a sign when
3 there's one minute remaining, which gives you
4 notice to wrap up your remarks. And a bell
5 will ring when your time has expired. With
6 apologizes to John Dunn, there's no question
7 for whom the bell tolls, it tolls for thee.

8 (Laughter.)

9 So I now would like to turn to my
10 colleagues for opening remarks.

11 John, please begin.

12 MR. BOWMAN: Good morning. My
13 name is John Bowman. I am the Acting Director
14 of the Office of Thrift Supervision. Welcome
15 to the last of four public hearings sponsored
16 by the federal financial regulatory agencies
17 that evaluate the performance of the Community
18 Reinvestment Act or CRA.

19 It is my pleasure to join you here
20 in Los Angeles. I grew up in Southern
21 California before moving to the other coast
22 and I still consider this area to be my home.

1 So thank you for having me back.

2 I'm delighted to see the large and
3 enthusiastic turnout today. Thank you for
4 your participation.

5 These public hearings provide us
6 with an opportunity to evaluate the current
7 CRA regulations and explore possibilities for
8 improving them. Updates may be necessary to
9 make the regulations consistent with the
10 business and market realities of the financial
11 services industry in the 21st century.

12 Through this process, we affirm
13 our commitment to make the CRA rules as
14 effective and meaningful as possible for the
15 financial institutions they cover and the
16 communities and consumers they benefit.

17 The CRA plays a pivotal role in
18 encouraging banks and thrifts to meet the
19 credit needs of all segments of their
20 communities, including low-and moderate-income
21 areas. The CRA statute in implementing
22 regulations encourages the expansion of

1 branches in low- and moderate-income
2 neighborhoods, as well as the development of
3 innovative, responsive, and responsible retail
4 products and services for low-income
5 households and families.

6 The CRA also encourages depository
7 institutions and community-based organizations
8 to collaborate in promoting accessible credit
9 and other banking services to under served
10 communities.

11 In previous hearings, we heard
12 from interested parties within the financial
13 services industry, consumer groups, and
14 community-based organizations. They have
15 offered us perspectives and recommendations
16 that will prove invaluable during the CRA
17 review process.

18 Consumer lending is one topic that
19 we expect to focus on today. In previous
20 hearings, some participants suggested that CRA
21 performance evaluations routinely cover
22 consumer loan products, particularly credit

1 cards. However, these participants also
2 observed that the newly created Consumer
3 Financial Protection Bureau, or CFPB, will have
4 broad responsibilities to write and enforce
5 consumer protection rules and policies. In
6 view of the CFPB's formulation, I'm very
7 interested in hearing your thoughts about how
8 the agencies should define CRA performance
9 obligations for depository institutions and
10 their affiliates whose loan portfolios include
11 a substantial percentage of consumer loans.

12 Another topic for discussion today
13 is lending to small businesses which have been
14 challenged by the economic downturn. What
15 types of incentives should we consider to
16 promote small business creation and growth?

17 Some have expressed the opinion that we should
18 modify the CRA regulations to provide
19 incentives for institutions to assist in green
20 business development. Others have asked us to
21 provide favorable consideration for micro
22 lending and micro credit products and services

1 to help bring these activities to scale.

2 Still others suggest that we foster the
3 strategic use of partnerships to leverage
4 technical expertise in financial resources.

5 I would be interested in hearing
6 your thoughts about these and other ways that
7 the agencies could revise the CRA rules to
8 assist small businesses, particularly during
9 times of economic stress.

10 The revision of CRA regulations in
11 1995, which emphasized data-driven performance
12 by larger institutions, generated concern about
13 the costs and associated burdens of
14 collecting, managing, and reporting such data.
15 Technical advances eased these burdens. Can
16 the types of technology that have become
17 common in today's financial services industry
18 make further strides in reducing or offsetting
19 CRA compliance costs? I would be very
20 interested in your views on these questions.

21 We have gained much from the
22 thoughtful recommendations and insights of

1 participants in the earlier hearings and we
2 know we will benefit from the perspectives
3 shared today. As noted in the previous
4 hearing some recommendations for CRA reform
5 would necessitate congressional action. We
6 ask participants today to focus on ways in
7 which the agencies can work within their
8 purview to make revisions to the current
9 rules.

10 We are committed to working with
11 stakeholders and Members of Congress to ensure
12 that modernization efforts continue to fulfill
13 the original mission of CRA while encompassing
14 the providers, products, and services in the
15 marketplace today that would help meet credit
16 needs as fully and as effectively as possible.

17 I look forward to your insight,
18 comments and recommendations.

19 MR. WALSH: Tom?

20 MR. CURRY: Good morning. My name
21 is Thomas Curry and I am a member of the FDIC
22 Board of Directors. I am very pleased to

1 extend my welcome to this final public hearing
2 on the regulations implementing the Community
3 Reinvestment Act.

4 The purpose of these hearings is
5 to solicit views on whether and how the
6 agencies should revise the regulations to
7 better serve the goals of the Community
8 Reinvestment Act. The CRA was enacted in 1977
9 and there has not been a comprehensive review
10 of the regulation implementing CRA since 1995.

11 During the past 15 years, as is
12 well understood, there have been dramatic
13 changes in the financial services industry.
14 We have moved from an industry in which most
15 banks had branches in one state, to an
16 industry in which many institutions have
17 branches in multiple states and a number have
18 deposit facilities nationwide.

19 Some institutions now conduct the majority of
20 their deposit and lending activities using
21 alternative delivery systems such as the
22 internet.

1 The basic purpose of CRA to expand
2 access to credit and basic banking services on
3 a sustainable basis to homeowners, small
4 businesses and consumers in under served
5 communities has never been more relevant,
6 particularly given the current challenging
7 credit market environment. In light of that,
8 as well as the dramatic changes in banking
9 over the past 15 years, it makes sense to
10 consider whether and how CRA could be made
11 more effective.

12 These hearings are designed to
13 solicit a diverse range of views on the
14 Community Reinvestment Act. Although they are
15 not limited to particular topics, the agencies
16 have outlined in the Federal Register notice
17 a broad set of issues on which we are seeking
18 public comment.

19 Today, some of the issues we will
20 be considering include critical topics such as
21 how to consider small business and consumer
22 lending and how to improve CRA public

1 performance evaluations.

2 We also want to hear about the
3 particular communities, customers, and
4 financial institutions represented by our
5 speakers and to take into account the
6 reinvestment and community development needs
7 that nonprofit organizations, local and state
8 governments, and banks are addressing today.

9 The specific needs of small
10 businesses and the states in this region are
11 a significant focus of this hearing. We
12 greatly appreciate the interest of all of
13 those who have come today from near and far to
14 provide their views on this important topic.
15 Thank you.

16 MS. BRAUNSTEIN: Good morning. On
17 behalf of the Board of Governors of the
18 Federal Reserve System, I would like to thank
19 you for participating in our fourth and final
20 inter-agency hearing on CRA.

21 I also want to take this
22 opportunity to thank my colleagues from the

1 Federal Reserve Bank of San Francisco and
2 particularly those at the L.A. branch for
3 hosting us today.

4 As we know, the CRA was enacted to
5 help ensure that consumers and communities
6 have access to financial services and products
7 regardless of location or demographics. While
8 the financial industry has evolved, a method
9 for delivering financial services and products
10 have changed. CRA's mission of ensuring
11 access to financial services and products,
12 regardless of location or demographics has
13 not. That mission remains particularly
14 germane as our nation recovers from an
15 extraordinary financial crisis.

16 In the previous hearings, we have
17 received comments and recommendations from
18 many witnesses on how the CRA and the
19 regulations that implement it should be
20 updated so that the CRA can continue to be
21 relevant in this changing environment.

22 We are confident that this reform

1 process will lead to meaningful change in the
2 CRA regulations that will help to keep it
3 vibrant in these dynamic times. However, we
4 do have to keep our expectations realistic and
5 as my colleagues have noted here, there are
6 clearly changes that the agencies can make to
7 the current regulations that are consistent
8 with the CRA statute and reflect the
9 developments in the industry since the last
10 major regulatory reform.

11 However, there are some changes
12 that may require legislative action.

13 There are a wide variety of
14 witnesses here today with a vast amount of
15 experience working with the CRA. I am looking
16 forward to hearing the views on how the CRA
17 regulations are working and your
18 recommendations on how to make them better.
19 With that, I would like to just once again
20 thank everybody for participating today.

21 MR. WALSH: Well, thank you very
22 much. We are a little bit ahead of time as it

1 happens. We will move to our first panel. I
2 am reminded of one instruction that I forgot
3 to give and that is we would ask everyone to
4 turn off cell phones so that we don't have
5 interruptions during the course of the
6 comments or questions.

7 So we'll now move to our first
8 panel. We'll be hearing from Gail Hillebrand
9 of Consumers Union; Joe Ridout of Consumer
10 Action; Kerwin Tesdell, of the Community
11 Development Venture Capital Alliance; Tanya
12 Fiddler, of the Native Community Development
13 Financial Institution Network; and Mark Willis
14 of New York University.

15 Ms. Hillebrand, please begin.

16 MS. HILLEBRAND: Thank you. I'm
17 Gail Hillebrand, Financial Services Campaign
18 Manager of Consumers Union. You know us as
19 the nonprofit publisher of Consumer Reports.
20 Our mission is to test, inform, and protect.
21 And I'm with the protect piece.

22 It's been my privilege to work on

1 Community Reinvestment Act issues here in
2 California since 1986. And as we talk about
3 regulatory improvements today, I want to
4 encourage you to take this opportunity to
5 enhance and fulfill the promise of CRA, that
6 no one gets left behind in the U.S. financial
7 system because of lack of access to capital
8 banking services.

9 As a consumer advocate, I have a
10 deep interest in CRA because we spend way too
11 much time in the consumer movement trying to
12 stop bad practices, one at a time. And CRA
13 gives us an opportunity working with community
14 groups and with banks to create good products
15 and good alternatives in the marketplace.

16 Everything you do to change this regulation I
17 want to be focused on that question of
18 encouraging banks and communities to work
19 together to identify not only needs in the
20 low-income communities, individuals, families,
21 and people who serve them, but also
22 opportunities for banks to turn that into

1 their main line business and mainstream
2 business.

3 There are viable business
4 opportunities in low-income America and part
5 of CRA is to nudge banks - it might be the
6 original nudge economics - to find them.

7 The CRA issue today is not access
8 to credit and services. It's access to
9 quality and safe credit and services. There
10 is unfortunately plenty of access for low-
11 income consumers to what are politely called
12 alternative services, generally at a higher
13 cost and with fewer protections. So as you
14 look particularly at the consumer products, we
15 want you to be looking at whether those
16 products have fair terms, price transparency,
17 and are sustainable loans underwritten and
18 repayable and fully amortizing. And to be
19 encouraging financial institutions to work
20 with communities to create products that
21 enhance and not detract from financial
22 stability.

1 You haven't done your job if CRA
2 can be satisfied as a regulatory checkbox or
3 as a bean counting game or as by writing a
4 check and saying we've paid.

5 I'd like to describe what I think
6 ought to be the three stages in a CRA process,
7 that the ratings need to honor, evaluate, and
8 support. The first one you might call the
9 innovative and flexible stage. I call it the
10 negotiation stage. This is where bankers and
11 community groups really get in a room and bang
12 their heads together and try to understand not
13 only the needs of the community, but the
14 limitations of the bank and how to bring those
15 two pieces together into a product that the
16 bank will eventually actually want to take to
17 scale and will be able to take to scale.

18 We can't learn from each other if
19 CRA can be satisfied without those meetings,
20 without those productive discussions, and
21 without products that actually get put on the
22 street at the end. So that's the first stage,

1 head banging stage.

2 The second stage is when the bank
3 really takes that product into the business
4 side of the bank and treats it the same way
5 they would any other product, markets it,
6 incents the sales people, and really makes it
7 part of their regular products' speak.

8 And the third stage, you don't
9 have to give any CRA credit. That's when it
10 becomes a mainstream product and when other
11 banks want to offer it too.

12 I'd like to mention several of the
13 specific topics in your questions. Consumers
14 Union does support a broader notion of
15 assessment areas. We recommend all
16 geographies where the bank gets deposit or
17 credit business or is seeking that business be
18 included in the assessment area. I think that
19 the tie to physical location is simply out of
20 date. We think it's time to end the choice by
21 the bank about whether or not affiliates'
22 activities count. We think that if you are

1 looking at the impact of a financial
2 institution on low - and moderate-income
3 America, you have to look the positives and
4 the negatives for the affiliates, the
5 subsidiaries, the joint ventures, whatever the
6 business is called. It still has that same
7 impact on communities.

8 We want you to look at the
9 affiliates the same way you're looking at the
10 banks. We want you to look at whether they're
11 putting products on the street that are
12 needed, wanted, and used by low- and moderate-
13 income communities, whether the products are
14 fair and sustainable, the loans are
15 underwritten, lending patterns are fair, and
16 consumer protection is honored.

17 I'm going to close on a personal
18 note. I almost never do that. My father once
19 said about my mother, "Here's a woman who could
20 squeeze a nickel until she turned it into two
21 dimes." There's a lot of talent in low- and
22 moderate-income America to take that nickel of

1 capital and turn it into two dimes for our
2 families, for our communities. It involves
3 hard work and sacrifice, dedication, and smart
4 use of resources. But the nickel has to come
5 from somewhere. In my family it came from a
6 fully amortized, fixed rate VA loan. But for
7 many families today it's going to come from
8 a CRA home loan; a safe deposit product that
9 allows building of savings instead of bank fees;
10 a fixed low rent, because a community
11 development agency or nonprofit has built
12 safe, affordable housing; or a small business
13 loan. And the work you do to modernize CRA
14 will bring that to fruition.

15 Thank you.

16 MR. WALSH: Thank you. Mr.
17 Ridout.

18 MR. RIDOUT: Good morning. My
19 name is Joe Ridout. I'm with Consumer Action.
20 Consumer Action is a consumer education and
21 advocacy nonprofit which has been fighting for
22 the rights of consumers since 1971. We offer

1 free publications on topics such as housing,
2 foreclosure, and consumer credit in up to
3 eight different languages and count over 1500
4 community-based organizations in our network
5 of housing group CBOs. And we appreciate the
6 opportunity to participate in this discussion.

7 The CRA must keep pace with
8 changes in the banking and lending world in
9 order to ensure that the needs of low- and
10 moderate-income communities are met. We must
11 expand CRA assessment to better reflect the
12 ways in which banking and credit have evolved
13 in recent years.

14 As new kinds of financial
15 institutions like online banks have grown in
16 importance, the CRA's ability to require banks
17 to serve the financial needs of low-income
18 Americans has diminished. Therefore, the
19 model of using bank branches for assessment,
20 as Gail has mentioned, must be expanded to
21 include all the communities in which the bank
22 actually does business.

1 As an example, Green Dot, which is
2 a vendor of prepaid or stored value cards, is
3 currently attempting to purchase Bonneville
4 Bank, a financial institution with only one
5 branch in Provo, Utah. If Green Dot's
6 acquisition goes smoothly, it's expected to
7 focus the bank on issuing its reloadable
8 prepaid cards and benefit from improving Green
9 Dot's margins through reduced interchange
10 fees. This repurposed bank would issue
11 prepaid cards all over the country, yet given
12 the current methodology of assessment, it
13 would only be responsible for reinvestment in
14 Utah County. Utah County has only 530,000
15 people, yet people all over the country would
16 be touched by the activities of the bank.

17 Given the transformation of
18 banking which is less reliant on brick and
19 mortar branches and more activities conducted
20 on line, it's reasonable to encourage banks to
21 invest wherever they derive a significant
22 portion of their business. Assessment areas

1 should be refined to include any state or area
2 in which the institution has a visible share
3 of the market for loans or other CRA-eligible
4 financial instruments.

5 In order to best achieve the goals
6 for which it was designed, CRA must also
7 evolve to cover a wider range of financial
8 activities that more accurately represent the
9 credit eco system of a community. Future
10 iterations of CRA should cover independent
11 mortgage companies, as well as other credit
12 actors. We should recognize that securities
13 firms like Charles Schwab and Goldman Sachs,
14 insurers, as well as credit unions, are also
15 vital to the financial well being of a
16 community.

17 If CRA had covered independent
18 mortgage companies, most of the deceptive or
19 unsound lending practices would have been
20 prevented. Financial scams run by companies
21 like Ameriquest, New Century, and Countrywide,
22 would have been exposed and halted before they

1 could have ensnared so many borrowers.

2 Expansion of CRA would be a
3 simple, yet powerful way to shield borrowers
4 from dangerous lending practices. According
5 to the Federal Reserve, just six percent of
6 the sketchiest loans originated in 2005 and
7 2006 that drove the foreclosure meltdown were
8 made by CRA-regulated institutions.

9 Furthermore, another study by the
10 Federal Reserve Bank of San Francisco found
11 that loans originated by independent mortgage
12 companies not covered by the CRA were twice as
13 likely to go into foreclosure as loans
14 originated by CRA-covered banks in their
15 assessment areas.

16 In terms of CRA examinations,
17 banks should receive CRA credit for their
18 initiatives in foreclosure prevention which is
19 surely the most urgent housing issue of the
20 present. A bank's efforts at modifying
21 troubled, but salvageable mortgages is an
22 appropriate component of how we should measure

1 that institution's success at meeting the
2 needs of the communities it serves.

3 Let's say, for example, a bank
4 developed a new balance forgiveness program.
5 This program say would offer borrowers a full
6 principle write down with the tradeoff that
7 upon future sale, the bank would be entitled
8 to three quarters of the property's
9 appreciation. If such a program were
10 successful in creating sustainable
11 modifications, that bank should receive
12 substantial CRA credit from meeting the needs
13 of that community.

14 Banks which service loans, but did
15 not originate them, should receive CRA credit
16 for modifications as well, whether or not the
17 modified mortgage fell within the service's
18 designated assessment area.

19 Through our consumer hotline, we
20 at Consumer Action hear frequently from
21 homeowners and former homeowners who are
22 bearing the brunt of the foreclosure crisis.

1 A woman from San Pedro, California, for
2 example, explained to Consumer Action a
3 familiar story of how difficult it can be to
4 apply for a mortgage modification. Her words,
5 "We have sent the same paperwork at their
6 request over and over again. It is very
7 difficult to speak to a customer service
8 representative, as the recorded message is set
9 to loop and not connect you with a real
10 person. Their customer service for the home
11 retention program is outsourced to India and
12 I have to leave a message. We have never
13 gotten a return call or email. We have
14 emailed and written them several requests for
15 a call or email back, to no avail. We get
16 letters sent certified mail every month
17 telling us we are in default of our loan and
18 that we should think about a modification. I
19 don't understand why the company that is
20 supposed to be handling our modification is
21 sending us that kind of letter."

22 We feel the bank's efforts or lack

1 thereof, I should say, at foreclosure
2 prevention must be included in that bank's CRA
3 evaluations.

4 We are excited to participate in
5 helping CRA continue to serve our communities
6 and appreciate the opportunity to share with
7 you our comments.

8 MR. WALSH: Thank you. Mr.
9 Tsedell?

10 MR. TESDELL: Yes. My name is
11 Kerwin Tesdell I'm the President of the
12 Community Development Venture Capital Alliance
13 which is the association of venture capital
14 firms in this nation that provide equity
15 capital for small businesses in low-income
16 communities to create good jobs for low-income
17 people and entrepreneurial capacity and wealth
18 that benefit low-income communities.

19 About 40 percent of the capital in
20 our industry comes from CRA-regulated banks, so
21 obviously CRA is very important to us. And in
22 particular, I'd like to focus my remarks on

1 the investment test of CRA and make four
2 particular points.

3 First of all, I'm concerned that
4 CRA has become overly focused on quantitative
5 measures as opposed to qualitative measures.
6 In the investment test, there are four
7 factors. There's how much -- how many dollars
8 going to deals, but there also some important
9 qualitative factors that I think create the
10 context and the lens through which you should
11 be viewing the dollars that are going into
12 investments. Are these products routinely
13 available from private investors? Are they
14 responsive to the actual needs of communities?
15 And finally to the extent that you have an
16 investment that is highly responsive, that is
17 not routinely provided by the private markets,
18 is the bank going the extra mile and making an
19 extra effort to produce this product through
20 innovativeness and complexity, to make this
21 important source of capital available to
22 communities.

1 So I would suggest rather than
2 starting with counting up dollars, that you
3 focus on these more qualitative issues and
4 that in each case the dollars be viewed and
5 valued through this lens. Now obviously, this
6 is harder to do than counting up dollars, but
7 I think you folks are tremendously well
8 positioned to undertake this type of inquiry.
9 You have terrific research and analytical
10 ability to understand the broad capital
11 markets of this country and I would request
12 that you train that ability on the low-income
13 capital markets and really work with us to
14 think about how the capital markets can work
15 more effectively for low-income communities,
16 not just the citizens of our nation that have
17 more economic resources.

18 The second point is the CRA needs
19 to be more focused on producing long-term
20 patient capital for low-income communities.
21 We hear over and over again that is what
22 community developers need, not four-year term

1 loans. The Q&A says that long-term and short-
2 term investments should be treated equally,
3 but from what I hear from bank CRA officers,
4 often when the examiner actually comes in to
5 do the exam, naturally the examiner is looking
6 for new things, not the investment that was
7 made eight, ten years ago. You don't want the
8 bank to rest on its laurels. But that kind of
9 view actually discourages what's really needed
10 which is the long-term patient capital for
11 low-income communities.

12 The third point is on the
13 investment test. Right now, CRA is focused
14 more on the form of the capital that's exiting
15 the bank as compared with the form of the
16 capital that's actually being used by the end
17 user of the community. So for example, the
18 purchase of a mortgage-backed security is
19 credited as an investment by the bank. In
20 fact, I think if you look at the impact on the
21 community, this is really a loan. It may be
22 bundled loans, but it's lending in the low-

1 income community. And I would urge you to re-
2 examine the CRA regulations and look at ways
3 to encourage the availability of what's really
4 needed which is risk-investment capital.

5 And finally, I wanted to note the
6 issue that my colleagues here have noted which
7 is the re-examination of investment areas.

8 I'll speak specifically to our issue of
9 community development venture capital funds
10 which are pooled investment funds. So we are
11 not able in advance to identify what we're
12 going to invest in exactly these businesses
13 and exactly these areas. And the problem
14 comes when the CRA assessment area of the bank
15 does not exactly overlap the assessment area,
16 the market area of the fund. And what happens
17 is the fund tries to do some kind of site
18 level which says we'll take your capital and
19 we'll put it in this area rather than that
20 area. If you do that with several banks,
21 you've got this patchwork of requirements and
22 for the next ten years you're trying to worry

1 about whether you've got exactly the right
2 dollars in exactly the right places instead of
3 running your fund effectively.

4 So I would suggest that if there
5 is significant overlap between the market area
6 of the fund and the assessment area of the
7 bank that the inquiry end there.

8 And finally, along the same lines
9 that if a fund is a certified CDFI that, just
10 as with minority-owned banks and low-income
11 credit unions that an investment in a CDFI be
12 accorded full CRA credit no matter where that
13 investment may exist.

14 Thank you.

15 MR. WALSH: Thank you. Ms.
16 Fiddler.

17 MS. FIDDLER: Good morning, my
18 name is Tanya Fiddler. I'm an enrolled member
19 of the Cheyenne River Sioux Tribe. I've
20 served as Executive Director of Four Bands
21 Community, a nationally-recognized native CDFI
22 located in Eagle Butte, South Dakota for the

1 past ten years. I also serve at the national
2 level as a founding co-chair of the Native
3 CDFI Network, and have been involved with
4 National Rural Assembly which is a movement of
5 people and organizations devoted to building
6 a stronger, more vibrant rural America.
7 Because of the support of the National Rural
8 Assembly it made my presence today here
9 possible.

10 I'm going to say thank you for the
11 opportunity to appear before you on behalf of
12 Four Bands, the Native CDFI Network, and
13 Native Communities. I also testify today as
14 a passionate advocate for the effectiveness of
15 Native CDFIs connecting Native people to
16 financial services they so desperately need.
17 These institutions are critical partners for
18 the agencies to engage in assessing bank
19 services as part of our CRA exams.

20 I also testify as a long-term
21 resident of Cheyenne River Sioux Reservation.
22 The issues you are considering are not

1 theoretical to me or the communities I serve.
2 These are matters of financial life and death.
3 Dewey and Ziebach Counties are the counties we
4 serve and they're two of the poorest counties
5 in the country. When we started Four Bands,
6 80 percent of the reservation population was
7 Native American, but less than one percent of
8 the businesses were Native-owned. So while
9 our products and services have clearly
10 enhanced the skills of Native clients over the
11 past decade, there is still significant
12 barriers to working with banks to revitalize
13 our communities.

14 While these realities provide a
15 clear rationale for why I sit here today, in
16 another respect I don't belong here. In many
17 Native communities we are worlds away from the
18 conversations going on at these hearings. The
19 Native American Lending Study which is the
20 most comprehensive study of lending needs in
21 Native communities was conducted more than ten
22 years ago and didn't even mention CRA. It

1 identified unmet capital in Native American
2 communities of \$44 billion. It also
3 underscored the fact that Native people aren't
4 thinking about the quality of bank service so
5 much as whether banks serve our communities at
6 all. Eighty-six percent of Native communities
7 lack access to a single financial institution
8 and 15 percent of our community members need
9 to travel over 100 miles to access financial
10 institutions.

11 So with those challenges in mind,
12 I have ten recommendations and I'll go through
13 them very quickly.

14 The agencies should develop
15 specific strategies for on-going engagement
16 with Native communities in order to ensure CRA
17 effectively promotes financial services.

18 Given the unique challenges of
19 Native communities, we urge agencies to
20 carefully review the written testimony given
21 throughout this period from Native
22 communities. I know that leading national

1 organizations like the National Congress of
2 American Indians and the Native CDFI Network
3 would be pleased to help facilitate more
4 conversation.

5 Number two, enhance small business
6 data to include race and gender of the
7 borrower, Census tract data of community
8 development lending and investing and bank
9 deposit and consumer lending. On the question
10 of revising small business and consumer
11 lending data, the answer from Indian Country
12 is simple, we need it. You need to collect
13 it. The HMDA data has been used effectively
14 to increase responsible lending by holding
15 banks publicly accountable. We need a
16 comparable small business community
17 development and consumer lending data set to
18 bolster bank lending and basic services.

19 Number three, collect pricing
20 information on lending products. You would be
21 surprised of what we pay out in mainstream or
22 on our reservation communities for bank loans.

1 But for both small business and consumer
2 loans.

3 Number four, develop tools that
4 make the data more accessible.

5 Recommendation number five is to
6 use the data to hold banks accountable. In
7 mid-1995, when the discrimination review
8 became lighter, we actually were having some
9 success in Indian Country having some of the
10 bank performance move up into the justice
11 system. It's not that discrimination doesn't
12 exist anymore, it's just that it's not really
13 looked for like it was before. So that should
14 be considered.

15 Number six, engage community-based
16 organizations -- I heard that mentioned
17 earlier. Our perspective from Indian Country
18 is that it's essential for agencies to find
19 more effective methods for facilitating
20 engagement between banks and community-based
21 organizations. We have one bank whose lawyers
22 refuse to help us open individual development

1 accounts because they're unclear that they
2 are CRA-eligible activities. So the real
3 rural effect is our clients are forced
4 to travel an additional 20 miles to get to a
5 bank. Banks in my community are also not held
6 accountable to offer products that meet the
7 needs of our customers. Absence of
8 competition and interest rates above 20
9 percent are not uncommon for loan products.

10 Recommendation seven, recognize
11 innovative practices.

12 Number eight, impose meaningful
13 consequences for noncompliance. We have a
14 bank located in another reservation in South
15 Dakota that's had needs to improve grades
16 since 1996 and have had no changes since then,
17 so I think it's important that there should be
18 some consequences for noncompliance.

19 Recommendation number nine, add a
20 specific community development test for large
21 banks and remove exemptions for small and
22 intermediate banks. It's well known in our

1 res. communities that we fly under the CRA
2 radar and banks don't necessarily have to
3 perform. They tell us that it's just out of
4 the goodness of their hearts that they deal
5 with this at all.

6 Last one, include long-term
7 unemployment as a criteria for accessing
8 distressed communities. Thank you.

9 MR. WALSH: Thank you. And Mr.
10 Willis?

11 MR. WILLIS: Good morning. Thank
12 you for inviting me to share with you today my
13 thoughts on ways to make the CRA more
14 effective in helping to stabilize and
15 revitalize low- and moderate-income
16 communities.

17 I'm a Resident Research Fellow at
18 the Furman Center for Real Estate and Urban
19 Policy, NYU. I speak today solely in my
20 personal capacity and based on my years of
21 experience as head of community development
22 for J.P. Morgan Chase and as a researcher and

1 urban economist.

2 I commend you for holding these
3 hearings. The CRA can benefit greatly from
4 changes that are within your power to make.
5 My submitted written testimony outlines a
6 number of options including balancing
7 qualitative and quantitative measures,
8 establishing a community development test for
9 large retail banks, creating a safety valve to
10 guard against any risks to safety and
11 soundness and unnecessary duplication of the
12 efforts of others, increasing responsiveness
13 to variations and local needs, and ensuring
14 that all communities can benefit from the CRA.

15 CRA is an exceptional legislation
16 because at its core it establishes an
17 affirmative obligation, rather than a
18 prohibition on certain behavior or actions.
19 However, an affirmative obligation also
20 presents certain challenges. It requires
21 continual adaptation to changes in markets,
22 industry structure, and community development

1 best practices. Examination procedures also
2 need to be adjusted regularly as lessons are
3 learned as to which tests are working well and
4 which are not.

5 The CRA has many stakeholders with
6 widely varying perspectives. You are no doubt
7 hearing a broad range of opinions, not all of
8 which seem reconcilable at least on the
9 surface, thus making your job particularly
10 difficult. So I want to suggest that you
11 consider in addition to hearings, encouraging
12 forums to convene diverse groups of
13 stakeholders specifically for the purpose of
14 exploring possible common ground.

15 Last year, in my role as a
16 Visiting Scholar at the Ford Foundation, I
17 twice convened a small group encompassing a
18 cross section of stakeholders offering a forum
19 to allow the participants to get to know and
20 better understand each other and each other's
21 perspectives. The reactions were very
22 positive and I believe these sessions have

1 already borne fruit in opening up new lines of
2 communication between the parties and in
3 helping to build consensus.

4 Let me now use my limited time to
5 say a few things about the two topics which
6 are the principal focus of this hearing. With
7 regard to the data for small business and
8 consumer lending, the first question should be
9 what type and quality of data are needed for
10 your examiners to be able to assess impact in
11 low- and moderate- income communities without
12 imposing unreasonable data collection costs on
13 banks. This is not a simple question as it
14 may seem initially, since it begs the question
15 as to what should be the scope of the exams.
16 In that regard, I suggest caution in trying to
17 do too much through CRA.

18 The challenges faced by L and M income
19 communities cannot be solved by a single
20 regulation, exam procedures, or limited group
21 of institutions.

22 A separate question is how much of

1 the data should be made public? The answer
2 requires finding the right balance between the
3 benefits of public disclosure and bankers'
4 concerns about borrower privacy, proprietary
5 information, etcetera. CRA has and should
6 continue to benefit from public participation
7 in monitoring banks' performance and
8 highlighting issues for more regulatory
9 scrutiny, especially given the likely decrease
10 in the number of public meetings triggered by
11 CRA-related mergers and acquisitions. It is
12 critical that the public have at least enough
13 information to be able to shift the burden of
14 proof to the banks or to the examiners where
15 the data suggest areas of concerns. I also
16 recommend that you have annual forums to
17 review the new data as it is released.

18 With regard to performance
19 evaluations, a major problem is that these
20 publications lag far behind the time period
21 they cover. For banks, this delay limits
22 their ability to adjust the CRA business plans

1 until well into the next exam period. For the
2 community, the information is so dated that it
3 can be of only limited use for identifying any
4 issues for the current or future performance
5 effect.

6 New exam protocols are needed to
7 facilitate faster exams, at least for the
8 larger banks and more timely release of the
9 results.

10 Let me end with a note on the need
11 not just to update the CRA regulations, but to
12 institute a process to keep them current. I
13 believe the more regular updating is not only
14 essential for regulation based on an
15 affirmative obligation, but also makes change
16 easier by allowing for smaller steps, more
17 rapid mid-course corrections and for time to
18 promote efforts for the stakeholders to find
19 common ground.

20 Stakeholders rarely find
21 themselves in a meaningful dialogue with each
22 other, even when they appear at the same

1 hearing or participate on the same conference
2 panel.

3 I again urge you to promote modest
4 size forums which allow all the participants
5 to speak and be heard and have proven to be
6 successful in improving communication and
7 building consensus on critical issues and
8 potential changes to CRA regulation.

9 I'd be happy to answer any
10 questions you may have and again, thank you
11 for the opportunity to be part of this
12 process.

13 MR. WALSH: Thank you very much.
14 Thank you all. Our timekeeper is falling
15 asleep there because everyone has been so
16 disciplined in staying within their five-
17 minute allotment. You've obviously testified
18 before, I think.

19 We'll now have ten minutes of
20 questions from each of the agency
21 representatives and I would ask John to begin.

22 MR. BOWMAN: Thank you, John. I

1 hope Hershel stays asleep when I ask my
2 questions because I have lots of them.

3 First of all, I'd like to thank
4 you all for your compliments regarding the
5 regulators' ability to work through some of
6 these issues. And I would tell you that your
7 confidence and your compliments are respected,
8 but are not always well placed, which is why
9 we have hearings like this.

10 But I'd like to turn it back on to
11 your side of the table. In a number of these
12 hearings that we have participated in, the
13 discussion of assessment areas and the
14 outdated nature of that concept continues to
15 come up. As many panelists have tried to
16 probe further with those people raising the
17 question, we don't get a lot of bite. People
18 sort of step up and they step back.

19 This is your chance. This is your
20 chance to sort of step up there and give us
21 some of your ideas in terms of what we do with
22 the assessment area, what are the kinds of

1 things that might be acceptable or more
2 challenging, first for the institutions we
3 regulate, but more importantly for the
4 communities in the areas that might receive
5 service.

6 Ms. Fiddler talked about Native
7 American communities. We've had other
8 participants talk about various natural
9 disasters, Katrina, being the most obvious
10 example where the regulators have provided
11 credit for certain services and loans. We've
12 had participants from rural areas who talked
13 about some of the challenges that they face
14 versus urban communities. And we've heard
15 people from urban communities talk about the
16 competition that is engaged in by many, many
17 institutions or services, or providing
18 services in those communities and some of the
19 risk that results from doing that.

20 Mr. Tesdell, why don't I start
21 with you and I'll ask the panelists, realizing
22 that we've got ten minutes and Hershel will

1 throw things at us if you go too much longer.

2 So some ideas, concrete ideas.

3 MR. TESDELL: Sure. Yes, I would
4 suggest that rather than think in terms
5 exclusively of where banks take deposit, take
6 a practical common sense business view of what
7 makes sense to be asking a bank to do. So for
8 example, if you have a local bank in Oklahoma,
9 it doesn't make sense for that bank to go
10 national, invest in a CDC in New York City.
11 That bank should be investing locally in the
12 community that it knows and where it has the
13 capacity to service.

14 On the other hand, if you have a
15 Citibank or a Goldman Sachs, that bank, I
16 think, should be charged with looking
17 nationally and thinking innovatively about how
18 it can serve the broader credit and capital
19 needs of this nation. And in fact, I think a
20 national bank such as those should be focusing
21 more of their resources on very low-income
22 communities. One unfortunate result of the

1 current assessment area system is that capital
2 is actually driven into more economically
3 active areas. So I'll use an example from
4 before the crash, but our funds in Florida or
5 California found it relatively easy to raise
6 capital as compared with a fund in Appalachia
7 or the Delta Region of Mississippi. The
8 reverse should be true, at least with respect
9 to those national level and regional level
10 banks.

11 And in addition, I think not only
12 in terms of geography, but also in terms of
13 product, I think it would be a real waste if
14 with Goldman Sachs and Morgan Stanley sort of
15 joining the fold here, if the regulators would
16 sort of push them into the same kinds of
17 activity that an average bank would undertake.
18 Push Goldman Sachs and push Morgan Stanley to
19 use their capacities, use the things that they
20 do best to serve the capital markets in low-
21 income communities.

22 I'll just make one final point

1 since you mentioned the disaster areas. I
2 guess I just caution using CRA to address
3 every problem that occurs in our nation. I
4 think CRA should be focused on its core
5 responsibility which is low-income people and
6 low-income communities and not to sort of
7 answer every problem that comes up, although
8 certainly the national disaster like Katrina
9 was tied in that case to economic issues.

10 MR. BOWMAN: You
11 mentioned large national banks, how about the
12 community bank that wants to take advantage of
13 or look beyond its immediate assessment area
14 to provide services or products?

15 MR. TESDELL: Sure. I think to
16 the extent that it is interested in doing
17 that, to the extent that it has the capacity
18 to do that in an intelligent way, I think that
19 makes a lot of sense.

20 On the other hand, to take the
21 example of the Oklahoma bank, I think to the
22 extent that what's happening is it's sort of

1 getting into this syndicate of everyone is
2 investing in this fund off in New York City
3 and it's relatively easy to do and it's set up
4 by somebody else. I don't know that that's
5 the role that the local Oklahoma bank should
6 be playing. I think the local Oklahoma bank
7 should be serving the needs of its community
8 that it knows the best.

9 MR. BOWMAN: Ms. Fiddler?

10 MS. FIDDLER: Conversation on the
11 assessment is hard because I come from rural
12 and frontier world so I would recommend
13 convening the rural bankers. There's reasons,
14 I understand, in the markets that they're
15 working within. The community-owned banks do
16 fairly well and would do a lot better in their
17 assessments or their CRA reviews if you could
18 consider the community development activities,
19 that kind of thing. We have another bank that
20 has a product that is credit cards, so when
21 they go to test in, the assessment area is a
22 large national, but they're performing on the

1 local level. I think you need to talk to the
2 bankers, the rural community bankers to
3 understand because they are challenging
4 markets to work within, period and meet
5 everybody's needs, you know; hence, the high
6 pricing and the lack of access and all the
7 other stuff. So assessment areas are just out
8 of my league to think of it that way.

9 MR. BOWMAN: All right. Mr.
10 Willis?

11 MR. WILLIS: Yes, thank you. I
12 think part of the problem that you are
13 probably facing here in these discussions is
14 should you expand them or not expand them in
15 some broad sense. And I think it is really
16 important to think about it in a nuanced way.
17 And Kerwin gave some thoughts on that.

18 So for example, internet banks or
19 ILCs that have limited number of headquarters,
20 I mean limited deposit taking, maybe only in
21 the headquarters, I think we need to rethink
22 whether that's the assessment area they should

1 be involved in. I think you should also think
2 about whether strategic plans is something
3 that could be more appropriate for that
4 situation.

5 With regard to large national
6 banks that have lots of branches, the idea that
7 they get credit for investing in a national or
8 regional fund only to the extent it's in
9 their specific assessment areas doesn't make
10 a lot of sense from an economic point of view,
11 or whatever. But it does raise the issue of
12 mandatory versus voluntary and so I think in
13 the case of those banks, you may want to
14 consider allowing full credit for investing in
15 national funds that may not be in their
16 assessment areas, but not mandating.

17 And the reason not to mandate here
18 is again how many assessments can we examine and
19 look at it in a serious way? And if we're
20 talking about looking at more qualitative
21 issues than just quantitative, expanding -
22 - doubling, tripling - I don't even know what

1 the numbers are, but large expansion of the
2 number of assessment areas will probably hurt
3 the quality or the ability of the examiners to
4 do a quality exam, to look at qualitative
5 factors there.

6 And the exams will get even longer
7 which I think is also something that you don't
8 want to have.

9 One of the concerns people have is
10 that some communities are under served, so
11 that you have national banks serving local
12 communities. The bank is small, but subject
13 to a small bank test, that whole set of
14 issues. I think you should seriously give
15 consideration that maybe banks should get
16 extra credit for serving those communities.
17 You could identify, I think, which communities
18 are truly under served and provide some
19 mechanism here by which they get -- the larger
20 banks or regional banks -- could get credit for
21 investing in what could be identified as CRA
22 under served communities.

1 MR. BOWMAN: So you would have the
2 regulator identify an under served area and
3 then sort of allow all comers to fill in those
4 gaps?

5 MR. WILLIS: Right. I use the
6 word CRA under served, because you have
7 identified in general what you view as under
8 served or the regulation does. So just what
9 areas maybe aren't getting addressed because
10 they're just small banks there and probably
11 the reason those are small banks is because
12 national banks are offering products there,
13 but not taking deposits, for example.

14 MR. BOWMAN: Good thinking. Thank
15 you.

16 Ms. Hillebrand?

17 MS. HILLEBRAND: Yes, thank you.
18 I think this is a question that calls for some
19 balance and nuance. It is difficult because
20 we don't want to say you're a national bank,
21 the whole country is your assessment area and
22 if you did something in New Jersey you're

1 done. You had the numbers and you did it in
2 one place. Clearly, that undermines the very
3 idea of getting banks to open their eyes to
4 the opportunities that exist in all of our
5 low-and moderate-income communities.

6 But if you think about -- I think
7 maybe the reason that deposits were chosen in
8 the first place is deposits and lending needs
9 to match up.

10 MR. BOWMAN: Right.

11 MS. HILLEBRAND: So if you think
12 about it that way, we think about what's the
13 bank's core business? If their core business
14 is deposits and lending or deposits or
15 lending, then you ought to be covering both of
16 those things when we look at their assessment
17 areas. And it's important in doing that not
18 to look at whether the particular geographic
19 area is significant in terms of the bank's
20 loan because there are a lot of communities
21 where there's very significant bond to the
22 community, but instead

1 whether as an active participant in a
2 marketplace in a local geography.

3 So if we look at that, I think
4 that might give us something closer to large
5 regions or probably are going to have to cover
6 the whole region. Large national banks that
7 cover five out of six regions in the country
8 are probably going to have to cover those
9 five. But it becomes even more important as
10 assessment areas get bigger for you to be as
11 regulators providing some quantitative and
12 qualitative information and signals to the
13 banks that you really have to serve the whole
14 community, and not only serve some low-income
15 people and some moderate-income people in some
16 areas, and I think that's the challenge.

17 And one thing we did ask you for
18 in our written comments was to provide
19 transparent information so that not only you
20 and your examiners can evaluate how banks are
21 doing, but the public, the media,
22 institutional depositors, institutional

1 investors. Consumers call me up and say who
2 has a good record? Who should I bank with?
3 It's very hard to answer that question on the
4 publicly-available information or else you
5 have a huge amount of homework even then.
6 So in addition to what you did to modernize
7 the regulation, we'd like to see the bank
8 regulators put up a searchable on-line
9 database of the information that you have of
10 who is performing and how so people can draw
11 their own conclusions and bring it to your
12 attention if we don't think this bank is doing
13 the job in our area.

14 MR. BOWMAN: Good. Mr. Ridout, I
15 think my time has expired, but hopefully we'll
16 have a second round.

17 MR. RIDOUT: Okay, fair enough.

18 MR. BOWMAN: Okay. Go ahead.

19 MR. RIDOUT: I'll be brief. I
20 echo a lot of the sentiments that were
21 expressed earlier. I guess this is an example
22 of how the tools that CRA has were a lot more

1 powerful in 1977 than they are today. I mean
2 not only did they not anticipate some of the
3 problems we're experiencing in the present, I
4 mean in 1977 they didn't even anticipate
5 Smiley versus Citibank which upended our
6 conception of what it means for a bank to be
7 chartered in a given location. There are a
8 lot of things that have changed. And I think
9 when you're looking at how to modify an
10 assessment area, you can look at wherever a
11 bank derives a significant portion of its
12 business or if it captures a certain
13 percentage, even be it one or two percent of
14 the credit market for CRA regulated financial
15 instruments, that should with a reasonable
16 degree of flexibility be included in how that
17 bank is assessed.

18 MR. BOWMAN: The only difficulty I
19 have with that goes to Ms. Fiddler's points
20 where business doesn't always track exactly
21 the CRA needs. And whether or not there's an
22 opportunity here for banks to fill that need

1 in a way that works from a
2 quantitative/qualitative side.

3 MR. RIDOUT: I agree. But that
4 flexibility should include pre-operative
5 incentives that will help communities and at
6 the same time shield communities from being
7 under served.

8 MR. BOWMAN: Thank you.

9 MR. WALSH: Tom?

10 MR. CURRY: Thank you. I'd like
11 the panel to explore the level of innovative
12 consumer lending products such as small dollar
13 lending and how we treat it under the CRA.
14 Specifically, should there be some type of
15 retail services test or community development
16 test that incorporates the extent to which
17 institutions provide or develop innovative
18 products? And is there a role for the banking
19 agencies in terms of identifying what the
20 range or scope of those quality products
21 should be?

22 And the flip side of that is if an

1 institution does not offer those products, but
2 I think Ms. Hillebrand used the term engaged
3 in adverse activities, how should we take that
4 into account in terms of ratings, whether it
5 should be a negative impact or to what extent
6 should we be looking to develop incentives to
7 have institutions develop safe quality
8 products which would be used? If we might
9 start with Ms. Hillebrand, I'd appreciate it.

10 MS. HILLEBRAND: Thank you. Of
11 course, we're very pleased to see the FDIC
12 safe deposit account template which was
13 released quite recently. I think that there
14 is room and it's appropriate to give banks
15 credit for moving forward in pioneering and
16 then really marketing up to scale and putting
17 on the street products that are safer.

18 We shouldn't be having this
19 conversation, right? We shouldn't have to
20 have a Federal District Court tell us just
21 this month that a major California, not so
22 California-based bank gamed the system and

1 changed the rules so that it would cost more
2 for people to hold deposit accounts with them
3 if they have low balances. But that's the
4 world we live in.

5 So ideally, community groups will
6 be coming to banks describing what a safe
7 product is. We've been doing that for 20
8 years and if it takes the regulators to
9 describe what it is in a way that gets banks'
10 attention, then we're happy to have the FDIC
11 do that.

12 I think there ought to be credits
13 for those. I think it's a closer question
14 whether it should be a negative for not
15 stepping up in one particular area if a bank
16 is stepping up in other areas. If they're
17 making small business loans and they're making
18 the deed restricted community development
19 loans, but they're not doing the consumer
20 piece, there definitely should be a plus if
21 they are doing it. If they're actually
22 engaged in activities that are adverse, that

1 drive the low balance customer out of the
2 bank, that's a different question. No one
3 should be getting an outstanding CRA rating
4 who's engaged in those kinds of practices.

5 MR. CURRY: Thank you. Mr.
6 Ridout.

7 MR. RIDOUT: We also think there
8 should be a place for that in the overall
9 composition of how you evaluate banks. I
10 guess the danger is that some of what we'd
11 call innovations in small dollar lending
12 haven't necessarily been to the benefit of
13 consumers and when you see, for example, pay
14 day lending and quasi-pay day lending being
15 offered even by large financial institutions
16 that can charge 120 percent interest, some of
17 these innovations aren't necessarily going to
18 benefit consumers, but we feel that there is
19 a great way to help consumers if it's done
20 right.

21 You can see in California here
22 there are a number of initiatives like Bank On

1 San Francisco, Bank On California, Bank On Los
2 Angeles where they're trying to get small
3 depositors into the financial mainstream and
4 are doing it effectively and I think banks
5 that step up and offer something like that
6 internally should be rewarded.

7 MR. CURRY: Thank you. Do you see
8 in that particular area in the problems you've
9 identified that there is a role for the
10 banking agencies and the community groups in
11 consultation with them to develop standards,
12 overall standards for products that can
13 differentiate between what might be
14 done in a more advantageous fashion?

15 MR. RIDOUT: I think that's an
16 excellent way the regulators can help the
17 banks and help consumers establish fair
18 practices across the board. Especially when
19 you're looking at the phenomenon of pre-paid
20 cards, for example. There are some pre-paid
21 cards offered by say MetaBank. They're

1 attaching a loan product that functions very
2 similarly to a payday loan. It's very
3 disturbing for us to see this looking at how
4 they can pry an extra \$10 per paycheck out of
5 people that just have a very small paycheck
6 being loaded on to these cards in the first
7 place. But I think a more explicit
8 understanding of what fair, small loans would
9 be would be very beneficial.

10 MR. CURRY: Thank you. Mr.
11 Tesdell.

12 MR. TESDELL: I'll just make one
13 comment. I think this is a great opportunity
14 to use CRA in a way that we've just gone
15 through this whole process with financial
16 regulatory reform of what we're going to
17 permit and not permit. And I think there's --
18 one question is, "Are certain kinds of loans
19 going to be permitted?"

20 Another question is do you get CRA
21 credit for making those kinds of loans or
22 providing those kinds of products. And I

1 think the CRA hurdle should be much higher
2 than the is it permitted kind of hurdle. It's
3 a terrific opportunity for you folks, I think,
4 to really think through what kinds of products
5 are really responsive to the needs of low-
6 income communities.

7 MR. CURRY: Thank you. Ms.
8 Fiddler?

9 MS. FIDDLER: In light of the few
10 banking institutions located on reservation,
11 within reservation boundaries, I would say
12 that the biggest thing or the best thing we
13 have going for us is the Native CDFI movement.
14 So banks that are able to work or move into
15 reservations or other definitions of Native
16 community could be encouraged, get points to
17 work with the CDFIs. I'm worried I come from
18 this place that is going to promote that, but
19 it's the community banks on our reservations
20 that are actually moving money, getting access
21 to the innovative products and now we're
22 developing the relationships with mainstream

1 banks, although they don't invest in us either
2 because we're not in the footprint. But it's
3 so important that banks that are looking to
4 perform within those areas and regions or come
5 up with new products work with the community
6 development financial institutions, because we
7 can help coach, guide, and often deliver and
8 pipeline up a test customer that finally moves
9 up into good credit worthiness and that kind
10 of thing. Thanks.

11 MR. CURRY: Thank you.

12 MR. WILLIS: I would think about
13 again a number of different pieces. The
14 consumer protection piece and what role CRA
15 should play I think fortunately CFPB maybe
16 clarifies this a little bit and allows that
17 mechanism to ban or deal with certain products
18 or come up with vanilla products, whatever it
19 is. And so take that burden off of CRA which
20 it has tried to do at times. But I think
21 better handled in its own sphere.

22 I also think that going beyond

1 credit to savings and transaction I think is
2 really important. I think we think about
3 stabilizing and revitalizing communities.
4 It's all about -- it's not just about credit.
5 It's about health and safety and jobs and I
6 think savings accounts and transaction
7 accounts, checking are important.

8 The important thing once you
9 decide if you think that's a public good is
10 whether banks should be cross-subsidizing
11 this. So if the product makes money and it
12 can be done mass market, hopefully they're
13 doing it, maybe they're not. I know of some
14 examples from the '90s. We learned how to
15 make mortgage loans much more sensibly to low-
16 and moderate-income communities. In my
17 opinion, that worked very well, separate from
18 the toxic stuff that developed in 2000. So
19 the dialogue is important and there may be
20 areas where banks could do things that they
21 didn't realize they could.

22 But to the extent that it requires

1 a cost subsidy, then you've got to think about
2 what are the incentives, what are the rewards
3 and sanctions that you want to put in place
4 here and are appropriate in CRA. You have
5 very limited room, I think, within the law now
6 to do that. And maybe likely we'll skip
7 through what seems different multiple housing
8 tax credits and new market tax credits, the
9 government ought to get directly involved in
10 the subsidizing of these products and provide
11 -- make these products so that they can help
12 the community, but also make good business
13 sense for banks.

14 MR. CURRY: Thank you.

15 MS. BRAUNSTEIN: You're done?

16 MR. CURRY: Yes.

17 MS. BRAUNSTEIN: Okay. I have
18 several questions. We'll see how many I can
19 get to. So I'd like to ask a question that is
20 related somewhat to Mr. Willis' testimony, the
21 written testimony and something he mentioned
22 today.

1 So I am sensitive to the fact that
2 a lot of times the CRA evaluations that come
3 out, especially when you're talking about the
4 larger banks are very dated. It's true. By
5 the time you roll up all those assessment
6 areas and you get the information out, it's a
7 year old, many times longer than a year old,
8 data. And that's a problem.

9 So in the meantime, though, what
10 I've heard, not just today but at the other
11 hearings we've had, there are a lot of very
12 good recommendations about additional things
13 we need to look at, new ways of looking at
14 things which frankly are more complicated even
15 than the ways we look at things now, and one
16 of those was brought up by Gail today which is
17 the qualitative versus quantitative which I
18 think is a very good point. But you have to
19 admit that it's a lot faster to count loans
20 than it is to get into the quality of those
21 loans.

22 So I'm trying to reconcile all

1 this.

2 While we have all these
3 suggestions about all these additional factors
4 we should be looking at, at the same time we
5 have a concern about the time we look at
6 all that, the information is already dated and
7 we need to somehow streamline this process and
8 try to get things to be more timely.

9 So any suggestions you might have
10 as to how we reconcile all this I think would
11 be very helpful. And if you want to, Mark, I
12 can start with you and I'd like to hear what
13 others have to say about that.

14 MR. WILLIS: You've highlighted
15 very clearly, Sandra, the dilemma here of the
16 tradeoffs potentially.

17 One idea which is probably not
18 thought through is some more -- for at least
19 the largest banks, some more ideas of
20 continuous exam. And it would have two
21 things. One is it could get more regular
22 feedback if something is not making sense and

1 the bank can then incorporate what change in
2 direction they need to take in their business
3 plans in a much more rapid fashion.

4 And my idea of annual public
5 discussion when the new data comes out I think
6 is also important because I think public
7 participation is important to the CRA process
8 and they need more current information. So I
9 think that could also help deal with some of
10 the issues of these sort of outdated PEs.

11 Another advantage of the
12 continuous exam in my mind is one thing that is
13 a little strange, to be honest, about exams
14 when examiners fly in from all over the country
15 They may or may not know the bank or the local
16 communities. They have to learn that as part
17 of the process.

18 Inherent in my notion about
19 something more continuous is where the
20 examiners know the community, as people have
21 talked here and mentioned, I know, in other

1 hearings, how well a bank is doing. Part of
2 the way to evaluate that is understand what's
3 going on in the community and get feedback
4 from the community -- who the community is and
5 how to assess that. Those are all tough
6 things, but I think there needs to be some
7 more continuity than we probably get
8 in this every three or four years, flying in
9 a group of people who suddenly have to figure
10 all this out and then write this up. There's
11 got to be some ways to make that process a
12 little bit easier.

13 And as I mentioned in my
14 testimony, I always say more examiner training
15 and more examiner empowerment is
16 really important for the examiners to be able
17 to make those assessments on the group.

18 MS. BRAUNSTEIN: Others? Gail?

19 MS. HILLEBRAND: Sure. You raise
20 a fair question. But if we have a choice
21 between fast, poor, incomplete information and
22 slow, good quality information that will help

1 to shape the decisions banks and communities
2 make going forward, I think we have to choose
3 slow and more complete information.

4 I like the idea that just like
5 large institutions have on-site examiners for
6 safety, they might have an on-site CRA
7 examiner kind of like when the gentleman was
8 speaking. But who knows if that will ever
9 happen.

10 Another way to address the
11 currency of information problem, we all have
12 this problem everywhere in the world. At
13 Consumer Reports we have it. Information is
14 out of date almost the moment that you receive
15 it, no matter what it is and when you receive
16 it, to make that information publicly
17 available in a database with a comments page
18 for the bank. If the bank is doing something
19 newer and better since the ratings and
20 evaluation, they're going to want to put that
21 up. And if you see an old rating with out-of-
22 date information, evaluation with out-of-date

1 information and there's no update, that might
2 tell the public nothing has really changed.
3 So that's another way to partially address
4 this issue.

5 MS. BRAUNSTEIN: Yes, Kerwin?

6 MR. TESDELL: One way to maybe
7 think of this is to engage in sort of a
8 business planning process, rather than seeing
9 this as a discontinuous periodic exam. That's
10 the way banks, that's the way businesses work.
11 They create business plans and then they carry
12 through those business plans. And if the
13 regulator is sort of involved in that process,
14 maybe on a continuous basis, the business plan
15 has been blessed. The four-year project to do
16 a particular thing in a community has been
17 agreed upon and in subsequent exams then you
18 don't have to sort of rethink all of that.
19 There's the business plan that's in place.
20 The regulators have blessed it and it's a
21 matter of carrying it forward.

22 MS. BRAUNSTEIN: Did you have

1 something?

2 MR. RIDOUT: Yes. I would just
3 say that I'm not convinced that there must be
4 a tradeoff between those two activities, but
5 it really -- it harkens back to some things
6 that I saw at the HMDA hearings in San
7 Francisco a couple of weeks ago. If you want
8 more data, must it be slowed down? How do you
9 reconcile these two things? How much more
10 leeway should someone have? It's a very
11 legitimate question and if there must be a
12 tradeoff, I would agree with Gail that it's
13 more important to capture the data that's
14 going to represent the full range of someone's
15 lending activity.

16 But I'm not convinced at the same
17 time that there must be a tradeoff. There's
18 plenty of ways that technologically we can
19 make things move smoother and Mr. Willis'
20 comments about a more continuous exam is one
21 way in which we can do it.

22 MS. FIDDLER: Like I said, getting

1 feedback from tribal leadership and getting
2 good, accurate data, this is again reservation
3 challenges for distressed community
4 definitions that whatever -- in South Dakota,
5 we have a 4.5 percent unemployment rate, but
6 on the reservations it's closer to 50 to 70
7 percent. So if there was a priority placed on
8 the distressed communities in America because
9 I'm also speaking from the perspective of the
10 poorest counties in the country, six of them
11 are in South Dakota and they are on
12 reservations, so I think that there's got to
13 be some portion. And I know Appalachia and
14 other rural places have the same challenge.
15 I think there has to be a priority in looking
16 at the most distress that we have, the
17 economic conditions, and coming to
18 understanding them especially from the native
19 perspective, getting tribal leadership
20 involved to help make some determinations, and
21 then go in and look at performance, the
22 business planning process, what are the goals,

1 about whether the regulators should be doing
2 the needs assessment work and kind of take the
3 banks off the hook for this, but do a more
4 thorough kind of economic analysis of the
5 different areas. And as you were talking,
6 your last comments, but also Tanya, what you
7 were talking about, in terms of native
8 communities. So I was wondering, I wanted to
9 get some indication from you as to your
10 thought about needs assessments and whether we
11 should be doing them. Should the banks still
12 be held responsible? Should the regulators be
13 doing this kind of assessment? Who should be
14 doing them?

15 MS. FIDDLER: I'm going to pipe in
16 and just say regulators versus the banks,
17 because my local community banks, and I love
18 them very much, but they'll protect their
19 information or protect their perspective.
20 They can't be as objective as they need to be
21 to continue to deliver high interest rate
22 products or whatever. So not that I want to

1 shoot them in the foot, but this data should not
2 be there in rural, remote areas or in Indian
3 reservations.

4 MR. WILLIS: One problem with the
5 current system where it relies on the banks
6 through their performance -- what is it --
7 performance context, thank you, context, is
8 that until the exam is over, you don't know
9 whether the examiner is going to accept that.
10 So part of the issue is certainty and as
11 Kerwin pointed out, there's business plans.
12 This whole process has to be built into. So
13 I think there is a huge advantage with all of
14 the regulators playing a role here, and
15 collectively so that everyone doesn't -- each
16 of them don't have to go to community groups
17 themselves to get that input. It would then,
18 as I said, give more clarity and
19 predictability.

20 MS. HILLEBRAND: I want to agree
21 and disagree, mostly disagree, but I do agree
22 with Ms. Fiddler's point that there are some

1 areas that are so important we can't leave
2 behind. And certainly high employment areas
3 fall in that list. The regulators could say
4 very low-income areas, distressed areas, high
5 unemployment areas. We are going to ask you
6 in your exam what you did in these areas, so
7 get ready to tell us and that's not exactly
8 the full needs assessment. It doesn't replace
9 the performance context and I think it's
10 important to hold the banks to the obligation
11 to actually know the communities that we're
12 asking them to serve under CRA. And if that
13 piece has already become a little too
14 formalized, a little too check the box. We had
15 meetings and if it becomes even less of the
16 bank's responsibility, we have missed that
17 opportunity for the light bulb to go off.

18 I was in a room once where a
19 banker finally realized for the first time
20 that a single room occupancy hotel should be
21 underwritten as housing and not as a hotel
22 with a high vacancy rate. That was 20 years

1 ago, but that was a breakthrough at the time
2 and that became a very successful piece of
3 business for that bank.

4 Those light bulbs can't go off
5 unless people get to know each other and the
6 needs assessment is part of that.

7 MR. WALSH: We have a bit more
8 time so we may get to come around for some
9 further questions. But I would follow up on
10 that thought, I guess. There was a comment
11 made, I think, by you Gail, and further to the
12 thought you just expressed about kind of a
13 head banging that went into all of this that
14 you really need people to get in there and
15 bang some heads to figure out what needs
16 doing.

17 And another comment was made maybe
18 by Mr. Willis about understanding the local
19 context, various people kind of echoed that
20 thought. But if you look at some kind of
21 regulator-based assessment, national thought
22 process of kind of measuring and monitoring

1 and laying out some strategies, that seems to
2 get you pretty far away from really
3 understanding the local context, really being
4 inside the local community and that kind of
5 head banging thought.

6 And is there some way to reconcile
7 those thoughts of achieving meaningful
8 direction to the process, but also making sure
9 that things are happening, where the rubber
10 meets the road?

11 MS. HILLEBRAND: I think it's
12 going to be very hard to do, but the signals
13 that you send as regulators that we are
14 looking for actual products, not just pilots.
15 We're looking for things that actually --
16 there's take up, real marketing within the
17 bank and real take up by the users. It's not
18 sitting on a shelf somewhere. It's a business
19 product, not a product to make the regulators
20 happy. I think that will help.

21 I do think that you can say here
22 are our expectations, but that you also need

1 to be saying to the bank, where is the new
2 product? Where is the different delivery
3 system channel or marketing effect for the
4 existing product that's essentially making it
5 work for people who weren't using it before?
6 Because it's getting harder to bang heads
7 together. The person who makes the decision
8 is in Charlotte or is in New York or is
9 someone other than where the people are who
10 have the needs.

11 If CRA can be satisfied by the
12 person in the bank who wears the CRA hat going
13 around holding a lot of meetings, that's not
14 going to get us anywhere and it's not opening
15 the bank up to these business opportunities.
16 It's not going to help low- and moderate-income
17 communities. So that's a way that CRA could
18 help.

19 MR. WALSH: I would add into that
20 thought the sort of internet bank issue that
21 you raised, Mr. Ridout, where the service is
22 provided in the ether and yet you would

1 like that bank to meet the needs of people
2 that it's having only electronic contact with,
3 kind of adds to the complexity.

4 MR. RIDOUT: Indeed it does. But
5 we really think that there's a wonderful
6 opportunity for regulators to play a role in
7 how this changes. I mean there's no better
8 moment than right now for regulators to demand
9 more from banks. It's really an opportune
10 time to rethink some of the rules that were
11 not in place that allowed some of the
12 catastrophic lending environment to take shape
13 and how to prevent that from happening in the
14 future.

15 In general, we really welcome
16 regulators adopting a much more
17 active role than until recently we had been
18 accustomed to seeing in many areas. We think
19 it's a wonderful opportunity.

20 MR. TESDELL: I don't know that it
21 really has to be an either/or thing of whether
22 the regulators do the assessment or the banks

1 do the assessment. I think the banks
2 shouldn't be off the hook. I think they need
3 to do the assessment, but you as regulators
4 doing an intelligent, involved job need to do
5 your own assessment, and there's also I think
6 some sort of division of labor here. So for
7 example, to take an example of my field in
8 community development venture capital, I think
9 it would be terrific for the bank regulators
10 to do an overall study about the availability
11 of patient equity capital for small business
12 development and job creation in the United
13 States. Individual banks shouldn't have to
14 replicate that for themselves.

15 On the other hand, when it comes
16 the exact strategy and how to make the
17 investment and how to structure the functions
18 and that sort of thing, a Goldman Sachs or a
19 J.P. Morgan Chase is very well placed to do
20 the head banging to work all that out. It's
21 sort of intelligent engagement, I think,
22 between the regulators and the banks and the

1 community organizations would be very happy
2 and excited to take part in that kind of
3 assessment.

4 MR. WALSH: Ms. Fiddler?

5 MS. FIDDLER: More of the same,
6 engaging with community organizations and
7 leadership. The tribal leadership that we had
8 in place, all of it coming together,
9 otherwise, no comment.

10 MR. WILLIS: I would reemphasize
11 and agree with what Kerwin said here. It is
12 both and I don't think it's an either/or
13 situation.

14 With regard to head banging, an
15 interesting term, one that always promotes
16 smiles, but serious conversation between
17 people is really important where they're
18 listening to each other, learning from each
19 other. And I think part of the '95 reform in
20 moving from process to production
21 performance, we lost something there. There
22 is something about process. There is

1 something about making sure that the right
2 people are talking to each other and if
3 someone is in Charlotte, well, maybe you ought
4 to look and see whether the person in
5 Charlotte went to Cleveland to meet with a
6 group. I think there's some process elements
7 under what we call qualitative factors that
8 ought to come back and have more weight and
9 more significance in the examination process.

10 MR. WALSH: We are running a bit
11 ahead of time. Does anyone else have a
12 burning question on their list that they'd
13 like to --

14 MR. BOWMAN: I actually do.

15 MR. WALSH: Burn on.

16 MR. BOWMAN: I will. I will. I
17 actually have a couple of them, but I'll stick
18 with one - foreclosure prevention. A couple of
19 panelists mentioned CRA credit recognition.
20 I'll let you use the appropriate term for
21 foreclosure prevention on the part of
22 institutions. I'll open it up to anybody who

1 would like to expand on their thoughts.

2 MS. HILLEBRAND: Clearly, there's
3 a need now. It's a little tricky because if
4 you caused the problem, should you now get
5 some credit for solving it? But we're here,
6 we need to solve these problems. I would look
7 at whether the financial institution is
8 actually achieving the ultimate goal of either
9 keeping that family in the house or getting
10 that house back into home ownership in another
11 way. So I know in Cleveland the folks asked
12 you to give specific credit for donation of
13 real property. I think that's very sensible
14 -- a little piece, but a sensible piece.

15 On the modification and
16 foreclosure prevention, we need effective
17 programs. And we're not getting them so far,
18 not getting enough of them so far.

19 MR. WALSH: How can you give
20 credit for them is really the question?

21 MS. HILLEBRAND: I think you give
22 credit for them depending on whether the loan

1 is being done. It might be under the lending
2 test. It might be a service test. It depends
3 on what the outcome is. But I think you can
4 and should give credit for performance which
5 is better than the industry average or which
6 meets some higher standard that actually
7 results in people we're meeting staying in their
8 homes with loans that they can pay going forward.
9 That's a big challenge.

10 MR. WALSH: Yes, it is.

11 MR. RIDOUT: I would add, too,
12 that what they need to do also is allow
13 modifications to count for CRA lending in
14 community development loans. Right
15 now, they don't because there are changes to
16 an existing loan rather than a new loan. But
17 you can incorporate to give credit where
18 credit is due to those lenders that are
19 modifying in a way that keeps people in their
20 homes.

21 MR. WALSH: Anybody else?

22 MR. WILLIS: I think the idea of

1 keeping again, as I said before, CRA up to
2 date with recent market conditions, this is an
3 excellent example. And I hope you can do
4 something fast here. Unfortunately, we're
5 already a couple years into the crisis. But
6 it also points up the fundamental problems
7 that you need to deal with, and I think while
8 you're holding these hearings, which is when
9 stabilization efforts come under as community
10 development loans or community development
11 services, they don't get enough credit. So
12 even going to all this effort to make sure
13 that it gets credit within CRA, it's getting
14 credit in the things that I think are not
15 being valued enough. And so I don't know if
16 you've heard about community development
17 tests. We could talk more about that.

18 So I think that part is really
19 fundamental here to change the rules under
20 the way examinations proceed.

21 And one way to think about the
22 value of what the efforts are - if a bank is

1 doing something that is selling to a not for
2 profit for less than what would be the market
3 value, I think there are ways to do that
4 without rewarding them for or getting into --
5 I shouldn't refer to this -- without getting
6 to the issue of who created this in the first
7 place. Right now we need to do things
8 dramatically, I think, to help our communities
9 and look for what the bank would be doing
10 relative to what the market solution might be.

11 MR. WALSH: Good thinking.

12 MR. CURRY: You mentioned this
13 issue of community development test for large
14 institutions, could you expand on that? I
15 mean that's an issue that I'd like for you to
16 explore.

17 MR. WILLIS: To me, and we can
18 probably spend a whole session on exactly what
19 CRA is about or what's the intention, but to
20 me, it was about stabilizing and revitalizing
21 communities. And in that regard, community
22 development activities, community development

1 lending to CDFIs, particularly, for affordable
2 housing, construction loans, that's really
3 critical to rebuilding, stabilizing, and
4 revitalizing communities.

5 Controversially, grants which move
6 over into patient capital, those things should
7 get a lot of attention. I think they are
8 making a real marginal impact and not just
9 doing something that banks or other financial
10 institutions might be doing, but something
11 that is having an incremental impact on the
12 community.

13 And as you know, those things give
14 very small relative weight in the investment
15 test.

16 MR. CURRY: A ratio of what
17 the relative weightings should be if there
18 were to be a community development test for
19 large institutions?

20 MR. WILLIS: I'm not sure I'm
21 ready to say a ratio. I would just definitely
22 say that I would give them separate prominence

1 from the rest of investment, so they don't get
2 lost in that number. And community
3 development services, counseling, or
4 foreclosure prevention, these are really
5 important issues. In the existing exam, they
6 get almost no credit. And so if you want CRA
7 to have an impact on this particular issue,
8 you've got to give them more. And I think the
9 opportunity to do that in a community
10 development test is a lot better than the way
11 they're kind of broken up now into pieces.

12 And they are, in some ways,
13 interchangeable or mutually supporting and so
14 should be looked at as a group.

15 MR. WALSH: One question. I was
16 trained as an engineer, so I tend to think
17 sometimes about these systems and how they
18 work, and it seems to me there's a tendency to
19 keep adding pieces, but the notion of
20 updating, streamlining is also one of trying
21 to make the model work better. And so if we
22 just keep adding tests and factors and regions

1 and models and assessments and the rest, the
2 machinery kind of gets heavier and heavier and
3 it gets harder to keep it working and kind of
4 well oiled.

5 And I wonder, The notion of
6 the folks at interest having a meeting
7 to think about how to make some of these
8 tradeoffs, I think, is quite an interesting
9 idea. But in this concept of updating and
10 streamlining, are there things that go away as
11 things are added, or are there things that
12 morph into new models and new measures in lieu
13 of what was there before, because it is a world
14 in which someone has an interest in each
15 element of the test. And I'm just wondering
16 whether in this notion of updating
17 streamlining are there some things that would
18 change or would actually fall away as we move
19 to a newer model?

20 MS. HILLEBRAND: It's our hope
21 that things will fall away as the -- the CRA
22 actually does what it should do. Products are

1 developed that the bank -- they're assisting
2 them for the bank as well as for the customer.
3 If they're sustainable or not, we'll have to
4 see other banks coming in. I mean there is
5 some point at which people start to compete
6 because they finally realize there's money to
7 be made on a low- and moderate-income
8 customer. And if we get to that point where
9 everybody is doing it, where it's not patient
10 capital, it's just sort of regular old, plain
11 loan made to someone low- and moderate-income,
12 maybe we don't need to count that any more.
13 Maybe we'll take that one off the list. When
14 that product is fully integrated in the bank
15 and has sort of graduated to be equal with the
16 rest of the banking products, it's dangerous
17 to take things off sooner than that because we
18 could lose the momentum, but that's what we
19 hope for.

20 MR. RIDOUT: I think it's always
21 important to keep in mind what's become
22 outmoded or irrelevant, but when you're

1 looking at, say for example, what the original
2 purpose of the CRA was intended to address is
3 there still redlining? Of course, there is.
4 Is there still urban decay? Absolutely. But
5 more recently, we're seeing in this foreclosure
6 crisis suburban ghost towns in great
7 communities and that was wholly unanticipated
8 when CRA was initiated.

9 So I think we ought to be
10 cognizant of what can be taken away, but I
11 think the much more salient problem is what's
12 been added that we must continue to add
13 because the list of problems is not
14 diminished.

15 MR. TESDELL: A couple of
16 thoughts. I think this concept of continuous
17 business planning streamlines things for
18 everyone. You sort of look at it once, it's
19 set, it's blessed and you go forward then
20 carrying out your business plan rather than
21 sort of having to marshal your evidence every

1 year.

2 And second, I think it would be
3 interesting to look at the idea of
4 specialization that not every bank has to do
5 everything. Not every bank has to be sort of
6 examined equally on every thing and if a bank
7 is really good at doing a particular thing,
8 then maybe another bank is the one that fills
9 in someplace else. I think that puts a little
10 bit more onus on you, Sandra, your background
11 research, whatever you're going to do, then
12 you're going to have to sort of connect the
13 dots among the various banks and saying
14 overall, capital markets for low-income
15 people in communities are being served, not
16 necessarily that every single bank is doing
17 all the serving.

18 MR. WILLIS: I share your concern
19 and that's -- I don't think I have anything to
20 add, to say specifically to subtract, but I
21 think the adding on here definitely has risks.
22 I think the ability of regulators to do the job

1 that they need to do and making something way
2 too complicated, and we've talked about that.

3 But let me just come back to the
4 other notion. I think in a world where there
5 is more continuous updating of the regs, where
6 this becomes a regular process, things can be
7 added and subtracted without everybody sitting
8 in a room worried about if I let this go and
9 there is a financial crisis again in ten
10 years, I'm going to want to make sure it's
11 there. So I better not let up here.

12 I just think that is there now just
13 because the moves are so separated and I think
14 people are fearful of losing forever something
15 that seemed important and might be important
16 again - that we've created a system here that
17 is much harder to subtract things from, and
18 could be easier -- well, we may do that for a
19 few years, if it comes back. We're perfectly
20 prepared to add that back in.

21 So I think this idea of a more
22 continuous updating of the regulations also

1 could help here a lot.

2 MR. WALSH: Yes, I mean if the
3 notion that has been suggested of kind of a
4 menu of things that are expected to be done
5 within a plan is the thought and not that
6 everyone has to hit every point and every
7 feature. That may sort of square that circle
8 to some extent.

9 Do we have any --

10 MS. BRAUNSTEIN: Yes, I just want to
11 follow up on that a just a little bit. In
12 concept, I think this idea of continually
13 updating the regulation is a good one. But
14 I'm just wondering, practically speaking,
15 considering requirements and comment
16 periods and all that, how realistic it is?
17 And one of the things I think this also gets
18 to the thing -- some of the things you were
19 just talking about -- is in addition to trying
20 to stay current, one of the things about CRA
21 that I have to admit has always bothered
22 me, and I'm speaking for myself, now, not the

1 Fed, is when we get those phone calls which we
2 do all the time saying that somebody
3 has a really good project, but the bank won't
4 do it unless they know for sure they're going
5 to get CRA credit for it. And I have to say
6 that those phone calls make me crazy.

7 How do we address this concept and
8 I was going to ask the bankers this question.
9 It's like if there's a good project on the
10 table, it's good for the community. It's not
11 going to lose the bank money. How do we get
12 away from this thing of I'm not going to do
13 it, your regulator promised me that I'm going
14 to get X number of points of CRA credit for
15 it.

16 How do we get away from that? Do
17 you guys have any ideas?

18 (Laughter.)

19 MS. HILLEBRAND: That's a tough
20 one, but one thing is you can give them credit
21 for being first or for doing it before you
22 have seen it and approved it. That might help

1 a little bit.

2 I do like this idea not so much of
3 continuous update of the regulation because
4 it's a challenge as you mention, but that the
5 regulatory process should encourage banks to
6 be continuously updating their CRA business
7 plans. They should have a CRA business plan,
8 whether it's a strategic plan option, or just
9 an internal business plan. And they ought to
10 be updating it. Bankers don't wait around for
11 three years to develop a new product for any
12 other type of customer. And they should be
13 doing that for low- and moderate-income
14 customers either because they'd be out of
15 date. They'd lose the business for any other
16 type of customer. Those products need to be
17 continually updated and we need that same kind
18 of business focus on how we're going to get,
19 keep, and make money on low-income and
20 moderate-income customers.

21 And the alternative sector is
22 doing it. They're not doing it in a way that

1 we think is useful or that builds family
2 stability. But they're certainly doing it.
3 And there has to be room between those pricing
4 models and banks not being there at all, to
5 come in, make a profit, and still serve low-
6 and moderate-income communities in a way that
7 enhances family stability for those
8 communities, economic stability.

9 MS. BRAUNSTEIN: As a former
10 banker, Mr. Willis --

11 MR. WILLIS: I'm not going to
12 answer the question. I'll leave it to the
13 bankers. But I will say I equally am
14 frustrated. Either other parts of the bank
15 would call or community people would come in
16 and say well, I want a CRA loan. I'd say we
17 don't have CRA loans. We have good loans.

18 So part of your frustration here
19 is what really is the conversation that's
20 behind there? And when other parts of the
21 bank would come and say you know, can we get
22 CRA credit here? That's how I'll get it

1 approved. I would say I'm not going down that
2 road because if you can't get it approved as
3 a business proposition, then there's something
4 wrong here and CRA should not be the excuse
5 for somebody to do something that they're not
6 otherwise comfortable with.

7 So it's hard for you as a
8 regulator, but it was a little easier for me.
9 You need to get behind the question. Why are
10 they asking the question in that way? Is it
11 just an excuse to not do it? What are they
12 really trying to accomplish? So I'll leave
13 it to you, the bankers, to give you more
14 insight on that.

15 MR. WALSH: In thinking about this
16 notion of continually, continuously updating
17 CRA. I'm sort of looking at some of our staff
18 people here who are already assigned to one of
19 the 75 task groups we have to implement the
20 Dodd-Frank bill and adding a continuous
21 process on top of that might trigger mass
22 suicide.

1 (Laughter.)

2 MR. BOWMAN: Or retirement.

3 MR. WALSH: That's right, or
4 retirement, for those of us in that range.

5 (Laughter.)

6 MR. WALSH: But with that happy
7 thought in mind, we'd like to thank all the
8 witnesses for their thoughtful remarks. We
9 will take a break for about -- just under 20
10 minutes. We ask you to return promptly
11 because we will begin promptly at 11 and would
12 like to have the witnesses in their seats at
13 10:55 so that we can start on time. Thank you
14 very much.

15 (Off the record.)

16 MR. WALSH: We need a one minute
17 warning out in the lobby. There you go. We
18 didn't hear the bell the whole first panel
19 because everyone was so disciplined.

20 We now welcome our second panel to
21 the program. We will be hearing from Lisa
22 Glover of U.S. Bank speaking on behalf of the

1 Consumer Bankers Association; Robert Manuel of
2 Wells Fargo & Company; Tish Secrest of Bank of
3 America; Barbara Boone of Alliance Bank;
4 Andrew Gordon of Arizona MultiBank Community
5 Development Corporation; and Fred Mendez of
6 Rabobank, N.A.

7 So Ms. Glover, why don't you lead
8 us off?

9 MS. GLOVER: Thank you. Good
10 morning. My name is Lisa Glover and I'm the
11 Director of Community Affairs for U.S. Bank
12 which is the fifth largest commercial bank in
13 the United States with assets of \$282 billion.

14 I am testifying today on behalf of
15 the Consumer Bankers Association and I
16 appreciate the opportunity to present the
17 views of CBA on the CRA and the prospects for
18 improving them.

19 CRA was established to encourage
20 banks to help meet the credit needs of their
21 entire communities, including low- and
22 moderate-income households and neighborhoods.

1 While the Fair Housing and Equal Credit
2 Opportunity Acts, among others, were designed
3 to provide comprehensive safeguards for
4 consumers and minority groups, CRA remains the
5 only federal law focused on the needs of the
6 population that are not considered protective
7 classes, but may be historically under banked
8 or under served.

9 We believe the focus needs to
10 remain solely on those households and
11 neighborhoods. We hope the agencies will try
12 to avoid trying to make CRA all things to all
13 people which would stress resources too
14 broadly and dilute its effectiveness.

15 The agencies have asked if the
16 evaluation or data requirements for small
17 business, small farm, or consumer lending
18 activities should be changed and we offer the
19 following. In the evaluation of small
20 business data, it is the experience of CBA
21 members that while some examiners consider
22 demographics, market conditions, and product

1 mix, the amount of consideration examiners
2 seem to give these vary with demographics
3 often getting the most weight and attention.

4 We feel the demographic measure
5 does not comprehensively reflect whether a
6 bank is helping to meet the credit needs of a
7 community since it does not take into
8 consideration important factors such as credit
9 risk or demand. We recommend that the
10 agencies take a broader view and place greater
11 weight on parity with the industry and a
12 bank's product mix rather than emphasizing
13 only demographics. We feel these measures
14 provide reasonable proxies for demand and
15 credit risks that are missing in today's
16 current analysis.

17 The mandate that small business
18 lending be tied solely to low- and moderate-
19 income geographies needs to be reconsidered.
20 Small businesses are not like individual
21 consumers or families that are demonstrably
22 low- or moderate-income. A small business may

1 be located outside of a LMI community, and
2 provide services that help stabilize a LMI
3 community or employ individuals who are LMI.

4 In today's world, it needs to be
5 recognized consistently that loans to small
6 businesses outside of LMI areas can equally
7 benefit LMI individuals. Under the Dodd-Frank
8 Act, the Equal Credit Opportunity Act will now
9 require small business data to be collected on
10 all those -- by all those covered entities
11 providing credit. Many of those entities also
12 report CRA small business data.

13 The Consumer Financial Protection
14 Bureau will be writing the regulation to
15 implement the new ECOA requirements. However,
16 the Bureau does not have responsibility for
17 the regulation or oversight of CRA. We are
18 concerned that the new reporting requirements
19 may conflict with CRA, creating unnecessary
20 burden for the industry, raising costs for
21 consumers and small businesses and creating
22 confusion for the public. We encourage you to

1 coordinate with the new requirements with the
2 CRA so there are consistent reporting
3 requirements.

4 Finally, we feel it's important
5 the consumer lending remain optional. If it
6 were mandatory, it would shift the focus away
7 from the products where the needs are the
8 greatest, namely, mortgage, small business and
9 community development to products where there
10 is no evidence of a shortage of needs
11 particularly in low- and moderate-income
12 communities.

13 The agencies have also asked if we
14 should consider changes to CRA disclosures
15 performance evaluations. We offer the
16 following comments. Currently, the emphasis
17 in the examination process is on full-scope
18 areas. These are areas within the bank's
19 market where the examiners focus the most
20 attention, and tend to be the bank's largest
21 deposit market within a state. These full-
22 scope markets are the same for many banks and

1 with multiple banks competing for the same
2 opportunities, some of these markets can
3 overheat.

4 Conversely, rural areas and
5 smaller markets are shortchanged. More
6 resources are driven towards the full-scope
7 markets. To bring resources to more markets,
8 we recommend banks be able to select markets
9 with demonstrated needs in which to have full-
10 scope examinations. We feel this would bring
11 resources to smaller, more under served
12 markets.

13 In recent years, performance
14 evaluations have reduced the level of detail.
15 As a result, they have declined in value and
16 it's harder for the public to determine why an
17 institution received the rating that they did.
18 We feel less generic narrative and more detail
19 about specific activities undertaken by the
20 bank in a given market would be more
21 beneficial to the public.

22 Currently, exams are timed so the

1 next exam assesses performance for a period
2 that begins before the last performance
3 evaluation has been finalized. Often, the
4 performance evaluation will be issued for the
5 prior period when a bank is more than half way
6 through its current evaluation period. This
7 makes it impossible for banks to change their
8 performance based on the results of one exam
9 before being subject to the next exam. We
10 would urge the agencies to establish a minimum
11 period of time between the publication of
12 performance evaluations and subsequent
13 examination.

14 CRA has been a catalyst for
15 improving the lives of LMI people, however,
16 CRA can be improved. As the regulations are
17 reformed, it's important to ensure that CRA
18 remains focused on its core purpose while
19 ensuring a strong link to safe and sound
20 practices.

21 Thank you for giving us the
22 opportunity to be a part of this process.

1 MR. WALSH: Thank you. Mr.
2 Manuel.

3 MR. MANUEL: Good morning. My
4 name is Robert Manuel and I'm Director of CRA
5 at Wells Fargo & Company. We are a
6 diversified financial services company with
7 \$1.2 trillion in assets and more than 278,000
8 team members across our 80 plus businesses.
9 We provide banking, insurance, investments,
10 mortgage and consumer and commercial finance
11 through more than 10,000 stores and 12,000
12 ATMs and internet across North America and
13 internationally.

14 I appreciate the opportunity to
15 provide Wells Fargo's perspective and how the
16 CRA regulatory process can be enhanced.

17 We commend the agencies for their
18 continued efforts to develop regulatory
19 guidance for CRA compliance. Wells Fargo
20 supports the CRA and strongly believes that it
21 has been an effective law to revitalize local
22 communities and under served populations

1 consistent with safety and soundness.

2 Our comments stem from the goal to
3 promote increased sustainability, CRA programs
4 in a volatile and challenging economy and
5 within dynamic, regulatory and business
6 environment.

7 We believe that this goal can best
8 be furthered through greater flexibility in
9 how the CRA exam procedures are applied. We
10 believe there needs to be more consideration
11 for activities that have high community impact
12 and are most responsive to critical needs in
13 local communities.

14 There also needs to be more
15 consideration for the opportunities and
16 challenges of the environment in which the
17 institution does business. We believe that
18 the CRA is most effective when there is a
19 strong link between a depository institution
20 and the local communities that it serves.

21 Our obligations under CRA should
22 be tied to our capacity to reasonably

1 ascertain and service specific needs of our
2 communities. This tie is strongest when the
3 institution has a physical presence through
4 traditional deposit-taking branches and key
5 members in communities.

6 CRA public performance evaluations
7 should be an opportunity to reinforce this
8 connection between an institution's activities
9 and the local communities it serves. The
10 basis of an institution's performance should
11 meet the needs of local communities as
12 determined through community contacts as well
13 as institutions' efforts in working with
14 community-based organizations. This should be
15 described in the performance evaluation before
16 CRA performance is assessed.

17 There should be a balance between
18 quantitative and qualitative factors
19 considered when assessing performance. The
20 recent trend of streamlined evaluations has
21 focused on standardized quantitative
22 comparisons such as lending and branch

1 distributions to demographics. As a result,
2 qualitative elements such as performance
3 contexts and CRA highlights are not emphasized
4 and therefore a complete picture of an
5 institution's performance cannot be obtained.

6 Oftentimes, the best examples of
7 how an institution collaborates with
8 community-based organizations to find the most
9 impactful ways to address the most critical
10 needs in its communities can provide the
11 public and the industry with innovative and
12 creative approaches to CRA. These activities
13 can also differentiate CRA performance among
14 the institutions.

15 The performance evaluation should
16 also provide an opportunity for the
17 institution to highlight its efforts in the
18 communities that it has identified as having
19 most critical needs regardless of their
20 aggregated deposits. This is particularly
21 critical for rural or historically under
22 served markets. As recently demonstrated,

1 several markets impacted by high foreclosure
2 rates outside the large metropolitan areas
3 such as in California's Central Valley had
4 greater needs with fewer resources to meet
5 those needs. If their efforts were given
6 appropriate consideration in the CRA
7 examination and acknowledged in the
8 performance evaluation, the institutions would
9 likely do more to meet the credit needs of
10 these communities. In short, these
11 qualitative efforts need to be given more
12 weight.

13 With regards to enhancing the data
14 collection and reporting of disclosure
15 requirements, the agencies should require any
16 reporting for the number and dollar amount of
17 community development lending aggregated at
18 the county level. This will provide more
19 detailed community development lending by
20 geography and allow for market and industry
21 comparisons. The regulatory agencies should
22 also coordinate with the new Consumer

1 Financial Protection Bureau for any new data
2 collection requirements for small business
3 loans under ECOA as referenced in the Dodd-
4 Frank Act.

5 There should be a uniform standard
6 for small business data collection consistent
7 with data collected, reported, and examined
8 under CRA currently. With regards to small
9 business lending, we believe the CRA
10 evaluation of this activity of the lending
11 test can be enhanced. Its weight for an
12 institution's performance should be determined
13 by how much it has been identified as a
14 critical need in an institution's communities.

15 This differs from the strictly
16 quantitative approach of weighting performance
17 by lending volume. For example, Wells Fargo
18 is one of the largest originators of both
19 mortgage and small business loans and
20 historically has originated a greater
21 percentage of mortgage loans than small
22 business loans. However, given the high level

1 of unemployment in most of our communities,
2 job creation is an even more critical need at
3 this point in the economic cycle.

4 As small business lending is a
5 primary means of addressing this need, should
6 be weighted more than its percentage relative
7 to mortgage lending on the CRA examination and
8 acknowledged in the performance evaluation.

9 In addition, there should be more balance
10 between the quantitative and qualitative
11 factors considered when evaluating small
12 business lending performance. The geographic
13 distribution of institution's small business
14 lending to small business demographics is
15 still a relevant quantitative measure for
16 performance. However, qualitative factors
17 such as market conditions, credit demand,
18 tighter underwriting requirements and
19 competition that may impact performance
20 likewise need to be considered.

21 Finally, small business varied
22 activities such as providing technical

1 assistance and tools to assist small
2 businesses that may not necessarily directly
3 generate a large volume of loans, but are
4 designed to be very responsive to the needs of
5 local communities should also receive
6 significant qualitative CRA consideration.

7 Once again, we commend the
8 agencies for their continued efforts to
9 provide staff guidance for CRA compliance.

10 Wells Fargo appreciates the opportunity to
11 provide additional recommendations to enhance
12 the CRA regulatory process. We believe these
13 recommendations can be implemented with
14 minimal burden, but maximum benefit for
15 financial institutions and community-based
16 organizations to develop and participate in
17 sustainable CRA programs for years to come.

18 MR. WALSH: Thank you. Ms.
19 Secrest.

20 MS. SECREST: Good morning. I'm
21 Tish Secrest, Chief CRA Officer for Bank of
22 America. We have always been and remain a

1 proponent of CRA. Nevertheless, we advocate
2 for reform because the spirit of CRA should be
3 restored by adopting new rules that reduce the
4 immense complexity that has evolved over 30
5 years.

6 You have asked that we provide
7 comment on three areas and we offer the
8 following. Bank of America is the largest
9 provider of financial services to small
10 business owners in the United States with more
11 than four million customers.

12 The statutory directive of CRA is
13 to ensure that banks meet the needs of its
14 entire community including low- and moderate-
15 income neighborhoods. This two-prong view for
16 encouraging, assessing, and recognizing the
17 full impact of a bank's lending should be
18 preserved.

19 To this end, we suggest the
20 following changes. Inclusion of all loans to
21 businesses with revenues less than \$5 million.
22 If the intent is to support small businesses,

1 the size of the loan and location should be
2 irrelevant. Inclusion of all business loans
3 within LMI areas. These loans are economic
4 engines and anchors that provide stability and
5 jobs within the LMI neighborhoods. Inclusion
6 of all SBA or other government-guaranteed
7 lending.

8 Additional credit for small loans
9 to businesses less than \$100,000. Inclusion
10 of all small business loan modifications.
11 Inclusion of products, services, and technical
12 assistance for a holistic view of small
13 business. Exclusion in the analysis of
14 businesses where revenues are unknown,
15 consistent with HMDA analysis. And
16 consistency in data collection and reporting
17 requirements between the CFPB and CRA.

18 With regard to consumer lending,
19 Bank of America recommends that it remain
20 optional based on a bank's business strategy.
21 Requiring it would further over emphasize
22 lending and shift focus for needed banking and

1 community development services.

2 With respect to performance
3 evaluations, we have several recommendations
4 and I'll touch upon two. First, community
5 development activities are at the heart of
6 CRA, yet they are under valued as additive.
7 They should be elevated in importance and
8 carry more weight within the three performance
9 tests or they should constitute end-use stand-
10 alone tests.

11 Secondly, performance context is
12 an immensely important factor to meaningful
13 data assessment. It should be taken into
14 account in all geographic markets. And if
15 context is truly valued, there should not be
16 expectations nor evaluations based on year-
17 over-year over exam-to-exam increases. The
18 past three years underscore that economic
19 cycles do occur and performance may be
20 adversely affected.

21 Now turning to CRA data collection
22 reporting and disclosure, Bank of America

1 supports the continued CRA focus on income,
2 however, we would recommend that CD lending be
3 reported at state or MSA levels to provide
4 peer and industry analysis; that quantitative
5 data tables be separated from the qualitative
6 narratives so that a full assessment of impact
7 and results are not lost in the numbers; and
8 that qualitative assessments should clearly
9 describe impact in all markets, not just in
10 the full scope areas.

11 Briefly, I'd like to address
12 another area and that's access to bank
13 services. The headline here is that customer
14 behavior has changed dramatically, but banks
15 are not receiving CRA credit for the creative
16 and innovative ways that they are responding.
17 More transactions are done by all of our
18 customers through our ATMs than in our banking
19 channels. Telephone and online banking usage
20 is approaching parity with the market
21 demographics. And while mobile banking is
22 still emerging, we expect this to be a game

1 changer for all customers with U.S. cell phone
2 penetration reaching upwards of 90 percent.

3 Banks receive virtually no CRA
4 credit for providing state-of-the-art options
5 for access. Regulatory emphasis on banking
6 centers is limited and outdated.

7 Similarly, there should be
8 substantive credit for products and services
9 that benefit rather than specifically target
10 LMI customers. For example, we were the first
11 bank to join the Bank On California program
12 for the unbanked. However, because we used a
13 low-cost, mass-market checking product, we
14 received negligible CRA credit despite our
15 leadership.

16 Earlier this year, we introduced
17 an industry-leading overdraft policy. Yet, we
18 will receive no CRA credit for its profound
19 positive benefit to LMI customers. It is time
20 for a broader view of access. And
21 redistributing service test weightings will
22 help promote greater access.

1 In conclusion, the end result
2 should be the mutual gains that come from
3 maintaining a strong banking industry and
4 creating strong communities. As the agencies
5 consider ways to increase impact and reach,
6 safety and soundness must be kept in balance.
7 This is the linchpin to having CRA continue to
8 be relevant, viable, and impactful for the
9 next 30 years.

10 Thank you for the opportunity to
11 be part of these discussions.

12 MR. WALSH: Thank you very much.
13 Ms. Boone?

14 MS. BOONE: Thank you for the
15 opportunity to be able to speak at this CRA
16 public hearing.

17 My name is Barbara Boone, and I
18 represent Alliance Bank of Arizona. We are a
19 community bank and we've just reached over \$1
20 billion in total assets. But I have been with
21 the bank from small to intermediate and next
22 exam we will be a large bank.

1 I've been a CRA officer for many
2 years at different banks. Most of them have
3 been community banks.

4 So my first recommendation is to
5 increase the size standard for the definition
6 of a small business from \$1 million or less in
7 annual gross revenues to \$7 million or less in
8 annual gross revenues. I also am going to
9 address how I think we should standardize the
10 performance evaluation for banks.

11 Defining a small business as a
12 for-profit organization with gross annual
13 revenues of \$1 million or less is too
14 restrictive and does not properly reflect the
15 nature of small business lending that is
16 occurring for CRA purposes. The Small
17 Business Administration has a broader sized
18 standard definition of a small business and
19 should be used as a reference in determining
20 the definition of a small business for CRA
21 purposes.

22 The SBA, Small Business

1 Administration, refines the size standard of
2 a small business every five years. The
3 measure is defined by either the employment
4 size of the firm, or the gross revenue figure.
5 In general, the size standard can be measured
6 by the concerned average employment for the
7 preceding 12 months or the basis of annual
8 gross receipts of a business of a period of
9 not less than three years.

10 For example, the SBA has adopted
11 500 employees as a standard for manufacturing
12 industries and \$7 million in annual gross
13 revenues for non-manufacturing industries. It
14 was in 1954 that the SBA first adopted the
15 figure of \$1 million in gross revenue size
16 standard. And the standard has been
17 periodically adjusted by the SBA to account
18 for general inflation of the economy, start up
19 costs, competition, entry barriers and size
20 distribution of firms. And currently the size
21 is \$7 million.

22 Moreover, the \$7 million revenue

1 continues to capture the size of business
2 typically to use the SBA's financial
3 assistance program as a source of credit.
4 Therefore, to properly account for the
5 majority of the SBA loans and a more current
6 size definition of small business, it would
7 make sense to increase the CRA's small size
8 standard of \$1 million or less to be more in
9 in line with the SBA's anchor-sized standard.

10 A lot of times, when we do our
11 evaluations, we do quite a bit of small
12 business lending in low- to moderate-income
13 areas, but because of the revenue size
14 standard, it does not get counted for making a
15 small business loan.

16 My second recommendation is to
17 take affirmative steps to promote consistency
18 in the performance evaluation. Over the years
19 of my CRA experience, I have worked with
20 different agencies in doing a performance
21 self-assessment. And I have learned that

1 there's different standards and a different
2 way of calculating requirements to meet CRA
3 effectiveness. For example, for small
4 business lending, some agencies have adopted
5 the FFIEC tables to do your evaluation, whereas
6 some of the agencies are not using the FFIEC
7 table. So there's different forms of
8 measurement. So depending on which agency is
9 doing your performance evaluation, you could
10 reach different standards and different
11 conclusions.

12 And for years, in addition to the
13 FFIEC tables for the banks' mortgage loans and
14 small business lending not only does there seem
15 to be in consistency between the agencies, and
16 also between the field examiners and how they
17 actually look at it and what the measurement
18 used.

19 Likewise, the same is true for
20 investments. For example, some agencies
21 measure investments compared to total assets
22 and some measure it to peer one capital. So

1 again, you can reach different results.

2 And finally, the other is the
3 service test and how many service hours that
4 you actually do perform. Some agencies, it's
5 really ambiguous how we really come up with
6 what is an adequate amount of service hours,
7 and some agencies will criticize you because
8 senior management is not performing those
9 service hours. And then some examiners will
10 criticize you because you're not doing enough
11 service hours in your remote areas.

12 So I want to thank you for
13 listening to my recommendations of increasing
14 the size standard of a small business loan and
15 also in making consistency. It would be more
16 effective if we could understand and take the
17 mystery out of what a lot of the benchmarks
18 are in an evaluation so we know how to receive
19 an outstanding, satisfactory, or need to
20 improve in certain areas.

22 Thank you very much for the

1 opportunity.

2 MR. WALSH: Thank you. Mr.
3 Gordon.

4 MR. GORDON: Thank you for the
5 opportunity to testify on modernizing the
6 Community Reinvestment Act. My name is Andy
7 Gordon and I'm speaking with you today not as
8 a student or an expert on CRA, but as a
9 practitioner of community and economic
10 development. I have over 30 years of on-the-
11 ground experience in community development and
12 lending from rural Nevada as a Vista volunteer
13 in the '60s to the late '80s doing urban
14 development action grant lending in New York
15 City to the last 20 years as the founding
16 president of Arizona MultiBank Community
17 Development Corporation.

18 In many ways, Arizona MultiBank,
19 its customers and I are beneficiaries of CRA.
20 It is from this viewpoint that I wish to share
21 some of my observations. Arizona MultiBank is
22 a nonprofit community development financial

1 institution. We have provided 400 loans
2 totaling \$43 million throughout Arizona
3 serving urban, rural, and Indian Country.

4 In 1991, the OCC, the Federal
5 Reserve Bank of San Francisco, the FDIC all
6 played a very important role in guiding us and
7 our prospective bank investors, in structuring
8 a strong organization and financial platform
9 so that we could be proactive over the long
10 term and I emphasize long term in our mission
11 of responding to legitimate unmet credit needs
12 in our Arizona communities.

13 Valley National Bank of Arizona,
14 along with Arizona Bankers Association, led
15 the charge in the banking community to
16 establish Arizona MultiBank. At the time I
17 knew little about CRA, but Valley National
18 Bank, the largest bank in Arizona, soon to be
19 Bank One and J.P. Morgan Chase was obviously
20 motivated to take the lead on this initiative
21 with the regulators, primarily the OCC.

22 I experienced firsthand how the

1 combination of the iron fist and the velvet
2 glove of CRA and the deep and sincere
3 commitment of the pre-interstate banking
4 executives and local bank board members can
5 encourage innovation. We pioneered an equity
6 equivalent investment instrument that to this
7 day provides the financial footing for Arizona
8 MultiBank's effective community development
9 lending.

10 Regulators, banks, and the
11 community came up with a viable and lasting
12 capitalization structure for a nonprofit
13 corporation.

14 I provide you this background
15 because I believe it provides a context for
16 the regulators as CRA is revisited and
17 refined. Arizona MultiBank enjoys great
18 support from our 18 investing banks, but I
19 think now less so because of CRA and more so
20 because of the personal commitment of local
21 leadership at those banks.

22 Arizona MultiBank's current chair

1 from Bank of America has volunteered with us
2 for over 19 years. This bank executive
3 approves \$20 million and up loans there and
4 \$20,000 loans here. Because of the thoughtful
5 process in our founding capitalization, strong
6 management and board leadership and ongoing
7 understanding and refinement of our business
8 model for community development lending,
9 Arizona MultiBank has and will continue to
10 serve the community over the long term.

11 Current CRA regulations undervalue
12 the enormous bank involvement we enjoy and
13 from which the community benefits. The CRA
14 should have greater emphasis on and hence
15 provide a source of encouragement for an
16 investing bank's role in sourcing community
17 development loans that they can't do on their
18 own in whole or in part; their involvement in
19 underwriting of these loans, their share of
20 the actual loans, excuse me, originated; their
21 utilization of Arizona multi-loans is a credit
22 enhancement for their own loans; their

1 refinancing of Arizona MultiBank loans and
2 participation when a business or project
3 reaches its stride and becomes fully bankable.
4 And especially as Arizona MultiBank continues
5 to develop and provide creative and innovative
6 products, their leadership of the board and
7 community level is essential.

8 A bank's initial investment in
9 Arizona MultiBank and many other CDFIs and
10 opportunity finance organizations is the
11 gateway to expressing a fuller, tangible
12 commitment to sustainable investment in our
13 communities.

14 It seems that CRA in practice
15 really doesn't assign enough value to the
16 significance of the whole package. From my
17 vantage point, it's not difficult to see they
18 don't want a bank's activity in the community
19 as a check-the-box entry into the market
20 when it is actually a studied, long-term
21 commitment to reach further into the community
22 with lending products and services. Community

1 development is local. It is patiently
2 proactive. And success requires a solid
3 commitment in all the areas I mentioned and
4 more.

5 My sense is, however, that the
6 heavily rated elements of CRA exams measure
7 more discrete, quantitative activities of the
8 bank in silos rather than looking at the whole
9 farm. In my mind the whole farm approach
10 encourages and ensures sustainable investment
11 lending and services in difficult to serve
12 target markets.

13 Finally, CRA measurements of
14 tangible progress in small business lending
15 and housing encourages meaningful financial
16 support in these areas for impact in our
17 communities. Banks get this and are very good
18 at this for their exams. And the benefit for
19 the community is significant. The basis for
20 these measurements grows from what is known
21 and what exists in terms of historical
22 characteristics of borrowers and communities.

1 The cutting edge of community development in
2 reaching under served target populations in a
3 meaningful way often comes from what is not
4 fully understood today and lending products
5 that require special partnerships that need to
6 be nurtured and developed over an extended
7 period of time.

8 With success, these customers and
9 products are mainstreams and we can say with
10 pride that we are systemically connecting
11 financial resources to persons and communities
12 that would not otherwise share the full
13 potential of the American dream. Engineered
14 financial products should be for the good and
15 not the greed. And CRA is one way that this
16 outcome is encouraged and rewarded.

17 Last, I would be remiss if I
18 didn't mention that today's economy requires
19 not just the focus on community reinvestment,
20 but really affirmatively stemming the tide of
21 unintentional disinvestment. Sweeping actions
22 have been taken because banks are too big to

1 fail. Now it is time to take some courageous
2 action because our communities are too
3 important to fail. Thank you.

4 MR. WALSH: Thank you. I would
5 note a finally or last does get you off the
6 hook with the timekeeper, but you only get
7 one.

8 (Laughter.)

9 Mr. Mendez.

10 MR. MENDEZ: Good morning. My
11 name is Fred Mendez. I wear two hats this
12 morning, the first as Senior Vice President
13 of Rabobank, N.A., with responsibility for CRA
14 compliance, community development, finance,
15 and community affairs; the second as Chairman
16 of the California Bankers Collaborative.

17 My comments, except where noted,
18 represent the collective views of local CRA
19 executives from California Bank and Trust,
20 CitiBank, Comerica Bank, Rabobank, and Union
21 Bank. Therefore, these views may not
22 represent the formal views of each institution

1 at the highest level.

2 The format of my comments will
3 roughly follow the topics and questions as
4 published in the Federal Register on June
5 23rd, specifically those centering on
6 geographic coverage, bank asset thresholds,
7 the activities of affiliates, data collection
8 and the definition and role of community
9 development.

10 As it relates to geographic
11 coverage, the same bank can differ from one
12 area to the next. For example, it can be
13 heavily reliant on its branch network in a
14 major metropolitan area and find innovative
15 ways to make its products and services
16 accessible to non-metropolitan areas without
17 relying on a large branch presence. As such,
18 a bank's market share of deposits and loans
19 should serve as a primary determinant of its
20 CRA obligation more than the size of its
21 physical branch network.

22 A bank with limited or no branches

1 in a market where it has substantive market
2 share should be allowed to focus on lending
3 and investment activities to compensate for
4 its limited capacity for community development
5 services.

6 Regarding CRA asset thresholds,
7 the current asset thresholds that apply to
8 institutions and tests should at least align
9 with how the FDIC differentiates the industry
10 for asset concentration purposes. To
11 illustrate, as of March 2010, the 105 FDIC
12 insured institutions with assets over \$10
13 billion represented 77 percent of total
14 industry assets. The 575 institutions that
15 are considered large banks under the CRA
16 regulation, not including the 105 mentioned
17 previously, represent less than 8. These two
18 groups should not be considered equal. While
19 all banks with assets greater than \$1 billion
20 should be examined under the large bank tests,
21 those with assets less than \$10 billion should
22 not be compared to those with more.

1 impact throughout low- and moderate-income
2 communities, it is not banking.

3 While CRA-related activities
4 channeled through bank foundations should
5 continue to be considered under the CRA
6 regulation, the agencies should separate the
7 CRA activities of banks from those of bank
8 foundations and ensure that peer comparisons
9 are conducted in a manner that takes a
10 separation into account. The investment test
11 activity of two similarly situated banks
12 within a particular market should not be
13 treated equally if one of the banks uses a
14 foundation and the other does not.

15 Additionally, a bank that does not use a
16 foundation for its CRA activities, yet comes
17 close to, matches, or exceeds other banks in
18 the market using a foundation, should be given
19 additional consideration.

20 As it relates to CRA data
21 collection, the Collaborative suggests
22 eliminating Schedule RC-C Part II and enhancing,

1 if necessary, the CRA data collection
2 requirements for small business and small farm
3 lending in a manner that maintains its
4 relevance to supervisory function. While I'm
5 at it, you can add CRA Sunshine to the kill
6 list while you're at it.

7 (Laughter.)

8 Finally, regarding the role of
9 community development, in addition to impact,
10 community development loans and investments
11 should be reviewed on the basis of
12 sustainability. While each bank has a right
13 to underwrite community development
14 investments and loans as they see fit, the
15 agencies should consider whether these well-
16 intentioned transactions may be counter to the
17 goal of long-term economic and community
18 development or damage the brand of community
19 development finance within the industry
20 itself.

21 Examiners should understand the
22 business strategy behind a bank's community

1 development finance program, be confident that
2 it fits within safe and sound banking
3 practices, and recognize the difference
4 between CRA credit grabs and a mutually
5 beneficial and sustainable community
6 development finance program. One way to
7 gather this information is simply to include
8 bankers and community contacts during exams.
9 Thank you.

10 MR. WALSH: Thank you. Since we
11 have a somewhat bigger panel and the same
12 amount of time to talk to them, we're going to
13 shorten the question period just a bit and
14 we'll begin with Mr. Curry.

15 MR. CURRY: Thank you, Mr. Walsh.
16 I'd like the panel to elaborate a little bit
17 more on the treatment of community development
18 lending and community development services
19 under the CRA for large institutions.

20 It's been recommended to us by
21 other commenters that we apply community
22 development tests similar to the small,

1 intermediate small banks to large
2 institutions. I would like the panelists'
3 views on how they would fashion that test and
4 what differences they would recommend if we
5 pursued that path.

6 Let's start with you, Ms. Glover.

7 MS. GLOVER: Here's the issue I
8 think with the community development test as
9 a stand-alone test. If you remove community
10 development lending from the current lending
11 test, then you're looking at small business
12 lending and home mortgage lending as the
13 primary components of that particular test.
14 Those are really very quantitative in nature
15 in terms of how they're being examined right
16 now. So you're losing that sort of
17 qualitative component to balance that out. Of
18 course, there is performance context. That can
19 be considered for small business lending and
20 mortgage lending, but it's really the
21 community development piece that really shows
22 and highlights a bank's efforts in certain

1 activities that the other two categories
2 can't.

3 So our recommendation would
4 probably just weight the community development
5 test or the community development lending
6 portion of the lending test more, rather than
7 creating a stand-alone test for community
8 development.

9 Similarly, with regards to
10 community development services, once again,
11 stripping that out of the service test and
12 focusing solely on branch distribution, you're
13 looking at a comparison to demographics for
14 the most part. And so you really do want to
15 temper that a little bit with more of the
16 qualitative aspects of community development
17 services that really give you a sense of what
18 outreach the bank does in its communities in
19 that particular test.

20 MR. CURRY: Thank you.

21 MS. SECREST: I would echo much of
22 what Robert had to say. We have to think very

1 carefully before creating a separate community
2 development test about what that would mean to
3 the lending test and the service test
4 specifically because that would leave the
5 small business and HMDA lending as a very
6 quantitative test for lending with nothing to
7 show exactly what was the entire farm on
8 the lending test, as well as just the retail
9 branches on the service test.

10 With that said, we do feel that
11 community development activities, lending, and
12 particularly community development activities
13 in the service test are under valued at this
14 point in time, that there needs to be,
15 especially in this economy and the changes
16 that have happened since the examination
17 procedures were put in place, an increased
18 emphasis on community development lending
19 and community development activities

20 One way would be to create that
21 community development test. Other ways would

1 be just to change the weighting and how
2 they're looked at in the individual tests as
3 they are today.

4 MR. CURRY: Thank you.

5 MS. GLOVER: I would say that
6 certainly taking a look at re-weighting the
7 tests is a good viable option to take a look
8 at as long as it's creating maximum impact.
9 Clearly right now, community development
10 lending is very under valued as I stated in
11 our comments, as well as a lot of the
12 services. I think the services are being very
13 under valued in the sense that they are
14 extremely innovative and responsible in
15 actually addressing the needs of the LMI
16 customers and they're not receiving the
17 credit.

18 So we would support possibly
19 taking a look at a community development test
20 either in lieu of or as an option to the
21 investment test. But you would have to
22 consider re-weighting all three tests

1 considerably. I think if you leave it as an
2 optional tests there are some institutions
3 that, of course, do not have a heavy emphasis
4 on community development lending since right
5 now it is considered just additive.

6 The one point that I would make on
7 community development lending is that right
8 now it is additive, but sometimes it could
9 only have a mutual effect and all CD loans
10 should have a positive effect, so again I
11 think there is a lot of merit in taking a look
12 at it and considering re-weighting the tests.

13 MR. CURRY: Thank you. Any other
14 comments?

15 MR. MENDEZ: I think it is a good
16 idea to get more emphasis on it and
17 particularly with a robust CDFI and up through
18 the finance world where we see our banks are
19 very much choosing between investment and
20 lending to the CDFIs and organizations. My
21 point is or was requires a good combination of
22 capitalization and finance to be successful

1 over the long term.

2 I guess really the point of my
3 comment was it's the combination of these
4 things over the long-term that work and I
5 think to Mr. Manuel's part is they change over
6 time. An organization may say well I'm
7 emphasizing this today but the world and the
8 market today needs a different type of
9 emphasis. So I definitely believe community
10 development lending requires much more
11 attention. And right now, as I understand,
12 it's more frosting on the cake.

13 MR. CURRY: Thanks.

14 MR. GORDON: What I would add to
15 that is it seems odd that the CRA does not
16 treat all loans equally. All loans seem to
17 have a very important role in each community and
18 that role may be different according to the
19 product and what's needed in each particular
20 community. As such, the idea that structured
21 finance has as its primary purpose community
22 development should be only given a positive,

1 neutral, or negative impact to the overall
2 lending test when it may be more important
3 than a small business loan or a home mortgage
4 lending in that particular area. The
5 infrastructure already exists in the
6 examination procedures and the regulation to
7 just throw community development as well as
8 consumer into the mix to be treated equally as
9 small farm, small business, and home mortgage.
10 I don't think a new test is needed.

11 MR. CURRY: Thank you.

12 MS. BRAUNSTEIN: I want to go back
13 to the question I asked the last panel that I
14 said I wanted to ask the bankers. I want to
15 put it this way, in redoing this
16 regulation, is there a way that you can
17 suggest to us that we can structure incentives
18 such that banks will not feel that every time
19 they consider a new project from somebody they
20 have to first call the regulator and ask if
21 they're going to get CRA credit for it?

22

1 How can we structure incentives to
2 make that process go away or make that not
3 happen?

4 MS. GLOVER: Want me to start?
5 Okay. I think that part of the problem with
6 that, and I listened to the last panel, and what
7 you said about people calling you and asking
8 you if they could get CRA credit, goes to the
9 definition of community development. And I
10 think what has happened in the past is that
11 it's such a tight definition that we have to
12 remain within that. There's a number of
13 projects that are out there that we know have
14 impact on our communities; we know are going
15 to benefit our communities, but for some
16 technicality in the definition have been
17 thrown out in the past. And I think that that
18 drives a lot of the hesitancy of banks to take
19 on the projects that may not have CRA credit
20 because they're trying to fit within a little
21 box of a definition of community development.

22 MR. MENDEZ: I made a comment in

1 the back of the room when you asked that
2 question the first time to just fire that
3 person and hire somebody at the bank that
4 knows how to figure it out. It's not that
5 complicated. I think the rules are very
6 clear. I think unfortunately what has
7 happened is that there are some folks within
8 financial institutions that make it more
9 complicated than it needs to be.

10 As such, the issue of training and
11 education of bankers is key. I'm in front of
12 Mr. Bylsma here who has his name on 80
13 percent of interpretive letters. You don't
14 want to get back into that business.

15 MS. BRAUNSTEIN: No.

16 MR. MENDEZ: So it's like really I
17 don't think this is necessarily a regulatory--

18 MS. BRAUNSTEIN: And 20 percent
19 you signed.

20 (Laughter.)

21 MR. MENDEZ: Without permission,
22 if I recall correctly.

1 MS. BRAUNSTEIN: Yes.

2 MR. MENDEZ: But I don't really
3 see this as a regulatory issue. I really see
4 this as an industry issue to make the case
5 internally and have the right people doing
6 these deals to be able to sell to the
7 examiners why it does fit community
8 development and if they disagree to go through
9 the proper process up the chain of command to
10 make that case.

11 MR. GORDON: I think it's an
12 absolutely critical issue because I think CRA
13 in most parts is looking in the rear-view
14 mirror and it's not being proactive as it can
15 be in the community. And so today, let's say
16 if a bank said I want to make sure a loan that
17 I have foreclosed on or have made a short sale,
18 I want to make sure that goes to a family.
19 That will be community development in my
20 opinion. But they're not doing any new lending.
21 They are taking a new step. They are building,
22 hopefully keeping communities sustainable and

1 stable, but how do you get recognition for
2 that?

3 I think you need a way to respond
4 to what the current environment is and it's
5 very hard for CRA, in my view, to be nimble in
6 today's economy. And I think it requires, as
7 I mentioned, the courage today to take these
8 big strides and maybe the mechanism is how to
9 evaluate them if they are more global? I mean
10 there may be some small ones that need to be
11 done, but if there are some courageous steps
12 that can be made today, how does everyone get
13 together on it quickly to make that type of
14 more important decision in my opinion.

15 MS. BOONE: I have an answer to
16 that. Because I get asked that a lot from
17 lenders and I think there's really two reasons
18 why that question comes up and it's because of
19 pricing. Usually, those types of deals will
20 be lower pricing and so there has to be more
21 justification why we want to do lower pricing
22 on a transaction. And the other is because

1 they are a little bit more complex. There's
2 a lot more underwriting and there's a lot more
3 due diligence that has to be done on a
4 community development loan and I think
5 everyone needs to understand we are going this
6 extra mile and we want to do this type of loan
7 for our community. Are we going through this
8 knowing that we are at least going to get the
9 CRA credit at the end? And I think that's
10 where it comes from.

11 MS. BRAUNSTEIN: There are factors
12 in there now for complex deals. I just
13 wonder, are you saying those don't work? To
14 get CRA recognition for deals that are more
15 complex.

16 MS. BOONE: I think the CRA
17 officer understands that and I think they know
18 okay. I know this is going to be a CRA-
19 qualified loan, but I get questioned all the
20 time because I don't know that the lenders
21 always understand that that's going to be a
22 CRA-qualified loan. And it's a matter of

1 training.

2 MS. SECREST: What I would add is
3 that I think there needs to be a recognition
4 that banks do have some constraints, certainly
5 capital constraints and it's not so much that
6 they're not trained or that they don't
7 understand what qualifies for CRA, because
8 they do. But when it comes down to it,
9 sometimes you do need to make decisions and it
10 is based on where you're going to get the
11 maximum impact and one of the things that is
12 sometimes viewed is where you are going to get
13 CRA credit. Currently, the way that it's
14 structured I think, as you well know, you've
15 got full scope and limited scope areas and in
16 some markets you need to have a lot more
17 lending and/or investment so decisions are
18 made.

19 And then the other point that I
20 would make is that certainly what may sound
21 like a good deal when somebody calls you after
22 being reviewed by risk and other parties may

1 not be such a great deal from a risk
2 parameter's perspective.

3 MR. MANUEL: Sandra, can you ask
4 the question again? I just want to make sure
5 I understand how you posed it the first time
6 around.

7 MS. BRAUNSTEIN: So basically what
8 I'm asking you is what kind of incentive
9 system could we put in place in revising the
10 regulations. What happens now a lot
11 of times is that we get phone calls from
12 lenders who will say somebody brought in a
13 deal and I'm thinking of doing this, but I'm
14 not going to do it unless I know for sure
15 you're going to give me, as my regulator, CRA
16 credit.

17 MR. MANUEL: We don't make the
18 distinction between the CRA loan and one
19 that's not. I think there can be incentives
20 in how the guidance is applied. Sometimes
21 there's too much detail in the minutiae of
22 what counts and what doesn't count for CRA,

1 that there's a lot of time and effort lost in
2 those discussions internally to try to qualify
3 something as CRA.

4 One of the areas which came up
5 recently in the Q & As was the interpretation
6 around investing in multi-investor funds. And
7 in terms of trying to find the best way to
8 receive optimal CRA credit for those
9 investments that we do, we're actually going
10 the route of the side letter since it's the
11 easiest to document for CRA purposes on the
12 exam.

13 MR. BOWMAN: Ms. Secrest, during
14 your testimony, you mentioned perhaps a desire
15 for and I'm using my words, not yours, greater
16 credit be provided for innovative approaches
17 to providing services in different
18 communities. You mentioned ATMs.

19 What other sorts of delivery
20 channels are you thinking about or are you
21 considering?

22 MS. SECREST: Currently, at Bank

1 of America, our ATM and our online banking
2 really, as I mentioned, is at parity,
3 certainly from a LMI perspective at parity
4 with the demographics. So narrowing those
5 channels significantly would be important.

6 Mobile banking has completely
7 taken off for us. Right now we have greater
8 than three million customers and we're
9 beginning to see more and more as we do
10 geocode all this data that it is heavily being
11 utilized by LMI customers.

12 So in addition to getting
13 innovative and responsive access to the
14 options for delivering banking services, we're
15 also asking for consideration for the
16 innovative and responsive means of delivering
17 products, be they deposit products or credit
18 products. And as I said, savings products,
19 checking accounts, wealth creation.

20 As you may know, back in 2005,
21 Bank of America led and launched the Keep the
22 Change Program. And the Keep the Change

1 Program is a way to actually have savings
2 built where once you have a debit card
3 transaction it's rounded to the nearest
4 dollar. That difference is placed in your
5 savings account. Bank of America matches it
6 for the first three months and up to \$250 a
7 year. Those types of programs are really
8 literally catalysts and linchpins to actually
9 creating wealth. That program is nearing
10 close to \$1 billion of savings for LMI
11 customers over the five years. About \$3
12 billion in savings for non-LMI customers. We
13 would like to see those types of products also
14 be given credit for the innovativeness and
15 responsiveness.

16 Our overdraft policy that we just
17 launched is also one that we're seeking credit
18 for. So I think going back to the question
19 that was asked on community development,
20 making sure that community development
21 services such as lending are given a lot more
22 emphasis going forward is something we're

1 seeking as you consider reforming CRA.

2 MR. BOWMAN: Part of the reason
3 for my question is that at our hearing in Atlanta
4 now a week and a half ago, the discussion of
5 innovative provision of services sort of ran
6 up against the wall which was the ability to
7 deliver to a particular LMI community - the
8 availability of broad band services for
9 instance, the availability of cell phone
10 technology or other services. And thirdly,
11 I'll call it financial literacy required in
12 terms of the training that's required
13 to get a customer, or potential customer a
14 banking service or a product, to bring them
15 together in a way other than walking into that
16 brick and mortar facility.

17 Is this something your institution
18 is looking at?

19 MS. SECREST: We are looking at it
20 and we are actually very heavily involved in
21 financial literacy and financial education.
22 I think in some cases we do try to outsource

1 some of that education to third party
2 providers and that unto itself is also
3 something that we're seeking. Additional
4 credit, sometimes it is viewed that seeking a
5 third party provider to provide that
6 education, even though they are the most
7 skilled to do it and that's what we've
8 learned, especially those parties in working
9 with the LMI customers receive less value than
10 if a banking associate delivers it. So we are
11 taking a look at holistically all of the
12 different channels. We're tracking all of the
13 usage of those channels and providing a full
14 holistic view of the education that follows
15 with it.

16 MR. BOWMAN: Thank you. I don't
17 know how much time I have left, but this is a
18 practical question for all of you and maybe
19 one or two suggestions would be helpful.

20 As we evaluate CRA performance,
21 how do we properly attribute credit for
22 affordable and sustainable lending products?

1 Ms. Glover, I'll start with you.

2 MS. GLOVER: Affordable and --

3 MR. BOWMAN: And sustainable. The
4 emphasis as much on the sustainable part as
5 the affordable part.

6 MS. GLOVER: Right. Well, right
7 now as you're going through the performance
8 evaluation it's very quantitative. We don't
9 see a whole lot of discussion in the
10 performance evaluation of the sustainability
11 or the affordability product. I think you
12 need to look at it over the lifespan. You
13 need to look at it how it performs. Right
14 now, we're concentrating very much on
15 originations only. You need to take a look
16 and see how long those loans perform, come
17 back and look at them as prior period. In
18 lending and investments, you'll look at prior
19 period, but in lending we never do look at
20 anything that happened in the prior period.
21 So I think that that may be one way to afford
22 credit.

1 MR. BOWMAN: Mr. Manuel?

2 MR. MANUEL: Rather than looking
3 at it from a product standpoint, I think you
4 really do need to look at it from the
5 sustainability of the community. I think this
6 is where we go back to the holistic approach
7 as to how does a bank make an impact within a
8 given community. And during the time period
9 exam, it should be able to demonstrate to what
10 extent those activities in tandem work to
11 promote long-term sustainability within a
12 given community.

13 MS. SECREST: You know, I would
14 echo what Robert is saying about making sure
15 that you're looking at the viability and the
16 sustainability of a community. Having said
17 that from a product perspective I would
18 encourage more of long term view, whether
19 you're looking at the long-term nature of
20 lending and/or investments. And I think
21 someone on the first panel talked about that.
22 We look at it sometimes as just making sure

1 that we've got current period activity, but
2 taking a look at some of those long-term
3 investments that are really catalysts in those
4 communities and providing that credit.

5 And then the other thing from a
6 product perspective is that right now we do
7 look at, especially from a lending side,
8 mortgage originations, valuing rental housing
9 equally. There are -- you are providing
10 affordable housing and there are many folks in
11 today's economic cycles that really cannot
12 afford a home. So as we continue to develop
13 community development affordable housing,
14 multi-family rental homes, that type of
15 housing should be given as important a
16 weight in serving the needs of the community.

17 MR. BOWMAN: Ms. Boone?

18 MS. BOONE: I agree with both
19 Robert and Tish in that it is the
20 sustainability of a community and of a
21 neighborhood. I think we also need to be
22 looking at the sustainability not just of low-

1 and moderate-income neighborhoods, but also
2 the middle income neighborhoods that are
3 getting slammed because of the clusters of
4 foreclosures.

5 When CRA originally started, it
6 was because people were fleeing the urban
7 areas and going into the suburbs. And as they
8 left, so did the services. And I think we're
9 seeing the same thing happening not just in
10 low- to moderate-income areas, but we're also
11 seeing them now in middle-income areas where
12 the services -- people are fleeing the
13 neighborhoods. They're walking away from
14 homes and there's clusters now of
15 foreclosures. And foreclosures breed
16 foreclosure. As foreclosures happen, so does
17 crime come in and you see people now fleeing
18 neighborhoods.

19 So sustainability, I think we need
20 to look at and I think we need to redefine it
21 and I think we need to do more outreach into
22 neighborhoods.

1 MR. BOWMAN: Okay, Mr. Gordon?

2 MR. GORDON: I think we maybe look
3 at it in a different way because we're seeing
4 more and more. I'm kind of focused on the
5 CDFI and opportunity finance world and
6 investment and lending in an affordable way to
7 them creates sustainable organizations to
8 serve the communities at a local level. So
9 the way to look at it possibly is where is the
10 retreating of lending in CDFIs and opportunity
11 finance, our organization.

12 What I mean is I'm seeing out
13 there, yes, we've supported them while they're
14 okay, but when they really need support,
15 operational support and investment, when they
16 need, in fact, additional lending, they're
17 a little concerned because they're not immune
18 to the real estate problems. There's
19 retreating of lending. So the question is if
20 you're asking about sustainability, one way
21 to measure it is if I'm pulling out of a
22 relationship that I've had for a long time,

1 what does it take to stay in that
2 relationship? And it's another way to look at
3 it in my opinion.

4 MR. BOWMAN: Mr. Mendez?

5 MR. MENDEZ: This relates a little
6 bit in two parts to what Mark Willis talked
7 about earlier this morning with regard to the
8 composition of the examination team that
9 sometimes comes in, not being from the
10 immediate area or maybe even the state and not
11 really knowing the communities.

12 The issue of affordability and
13 sustainability sometimes goes into needs to be
14 tested in two different ways. One is the
15 product stress test, what's the environment in
16 which you're providing the product? Is it an
17 environment play? Is it only a product that's
18 good for a few years because of the current
19 environment? Money is cheap. If you're going
20 to create products that are within that vein,
21 you have to be up front with the examiners
22 about whether or not this is going to be a

1 product they're going to see if the
2 environment changes.

3 The other one is whether or not
4 it's a long-term sustainable product,
5 something that's core to the business plan of
6 the bank. And the third is whether or not
7 there are external factors involved, say I've
8 read a few different studies and that's
9 actually in the Central Valley, have seen
10 examples of redlining, but not by banks, but
11 local municipalities. You go into a community
12 that haven't had its roads paved in 15 years.
13 They shut down the fire station. They close
14 down the police station. And I'm getting hit
15 over the head for not making real estate loans
16 there? There has to be an education there.

17 And you see the examiners' eyes
18 open wide and all of a sudden they're like
19 they're in school. You need to be able to
20 make case, but I think having a certain basis
21 of information into the context and the
22 environment in which they're going in is

1 important.

2 And then finally, one of the most
3 important things I think the examiners need to
4 take into consideration, it's not the deals he
5 did, but the deals he lost and why.

6 Particularly in the early 2000s, my head of
7 community development finance, Frank Bravo,
8 actually started coining the term predatory
9 borrowers in the community development area
10 because we were competing on underwriting
11 standards that bordered on safety and
12 soundness. And I think it's important for
13 examiners to understand the fact that there's
14 a line that some banks are not willing to
15 cross in order to get a community development
16 deal. And that impacts whether or not that
17 money is going to be available if the economy
18 turns in five years. And that is no longer an
19 affordable product for that bank to offer and
20 the community really relied on the cheap
21 money.

22 So those are stories that both the

1 industry needs to tell, but the examiners need
2 to be prepared and have a context from which
3 to assimilate into the CRA exam process.

4 MR. WALSH: Thank you. A couple
5 of things, both in the testimony and some of
6 the comments about small business lending and
7 also foreclosure prevention and neighborhood
8 stabilization. They point to issues that
9 clearly affect community cohesion, sometimes
10 community development stabilization and
11 certainly in the small business area it's very
12 much a focus of attention in Washington these
13 days, how do we encourage credit for small
14 business as a means both of promoting economic
15 recovery, but also community development?

16 But in a number of ways the
17 suggestions and ideas that have been put
18 forward seem to wander away from the sort of
19 low- and moderate-income focus in the interest
20 of achieving a kind of broader objective, if
21 you will. I think the same objective, but
22 kind of breaking that link to some extent. So

1 increasing the size definition of small
2 businesses or removing LMI area only
3 designation for a small business or including
4 a number of specific elements as was in your
5 testimony, Ms. Secrest, I think, of specific
6 things to add.

7 And on the foreclosure prevention
8 and neighborhood stabilization, that there are
9 clusters of foreclosures that occur that
10 become -- seem to become kind of endemic or
11 systemic or something like that and shouldn't
12 we be doing something about that?

13 I just wonder if we
14 head in directions like that that seem to
15 break the link to low-and moderate-income,
16 we're not asking this system to do more than
17 it is intended to do. I mean should we be
18 kind of heading off outside the boundaries of
19 where we have been, even in the interest of
20 pursuing a very worthwhile objective?

21 MR. MANUEL: I think on that
22 point, CRA when it was written, the

1 institutions were to serve the financial needs
2 of all of its communities include low and mod.
3 So I think given the environment today with
4 the need for job creation regardless of income
5 level, I think institutions should receive
6 favorable consideration for all of the small
7 business lending that they're doing.

8 In addition, just because a small
9 business is located in a low- and moderate-
10 income area doesn't necessarily mean it's
11 attracting employees within that area.
12 Likewise, if it's in a middle and upper, it's
13 not necessarily just getting employees from
14 that particular area -- so I think given the needs
15 of the current environment, a broad definition
16 in terms of responsiveness as to what's most
17 critically needed in the communities
18 is in line with the spirit of CRA, even
19 though the definition may not be in sync.

20 MR. WALSH: Others?

21 MS. SECREST: I would echo what
22 he's saying. I think a broader definition as

1 we provided in our testimony where you're
2 looking at -- we stayed within the \$5 million
3 revenue size. We're basically saying all
4 loans with less than \$5 million again to
5 broaden that definition. And going back to
6 the loans in LMI communities, we're actually
7 asking for any loan size within the LMI
8 community because again, it is providing a
9 catalyst there for that community as well as
10 helping create jobs.

11 I think making sure that we've got
12 a rounded definition where you are including
13 all of the technical assistance that's being
14 provided to small businesses, it's not just
15 about the loan itself, but all the small
16 business technical assistance is provided,
17 could obviously be something that should be
18 addressed.

19 And then lastly would be if you're
20 considering size and if you're wanting to
21 really focus on the loan size, less than
22 \$100,000, again, you could take a look at that

1 and that was one of the options that we
2 mentioned as possibly looking at that. We do
3 provide that data, but looking at that for
4 extra credit.

5 MS. BOONE: I agree. I believe
6 we're in a different environment than we've
7 ever been in before. Individuals have lost
8 disposable income. They've lost value of
9 their assets. And I think because of that we
10 need to react differently and expand our scope
11 to not just include low and moderate, but also
12 middle income only in certain areas. And I
13 emphasize those areas would probably be
14 financial literacy and also in neighborhoods
15 that are faced with foreclosures, have cluster
16 foreclosures.

17 I'm not saying we should expand
18 every avenue for middle income. I think we
19 should limit it, but I think we should expand
20 the scope.

21 MR. GORDON: I think you raise a
22 really good point. On any day you'll see

1 100,000 foreclosures in Arizona and that's
2 steady with new ones coming on and other ones
3 moving off. And we have beautiful
4 subdivisions that have been built with high
5 foreclosures that have \$235,000 mortgages on
6 houses. Houses are now going for maybe
7 \$125,000, maybe less. Affordability today,
8 the house is done. We don't have to subsidize
9 someone buying a house that's affordable. So
10 what we're saying is it may not be a low- and
11 moderate-income community, but don't we strive
12 for mixed income communities?

13 It seems to me that the
14 opportunity that we may be missing is
15 connecting people to the houses that are
16 affordable today, which was to my previous
17 point.

18 So I think it's vast and in
19 Arizona, in particular, we feel it. What
20 frustrates me probably the most is the biggest
21 problem is the biggest opportunity we have
22 right now to, I think, build affordable

1 communities for people who are most in need
2 of those. It's a good question.

3 MR. MENDEZ: This goes back into
4 two different issues that were raised. One is
5 giving community development a more prominent
6 role, particularly for lending in the exam and
7 the other one is how hard some of us as
8 bankers are willing to work within the
9 definitions and footnotes of the regulation.

10 The flexibility exists for us to
11 be able to consider loans to businesses that
12 meet the size parameters of the SBA, SBIC and
13 SBDC program and satisfy the regulatory
14 definition of the size and purpose test to
15 increase or attain, retain, attract employment
16 for LMI communities or LMI individuals.
17 That's a big loophole to be able to capture a
18 lot of information as community development
19 loans.

20 Well, the work required to be able
21 to gather that information and then be able to
22 report it and provide it to examiners is not

1 necessarily worth neutral, positive, or
2 negative impact in the overall lending test.
3 So there isn't really an incentive, but if
4 community development lending were given a
5 more prominent role, similar to that of other
6 lending products, then I think that issue
7 would take care of itself.

8 Obviously, when you come up with a
9 number like \$1 million of fiscal year
10 revenue and you came up with that in the mid-
11 '90s, it would probably be a good idea to tie
12 it to something that moves. So the idea of
13 tying it to a SBA definition or something
14 else you guys find would probably be a little
15 bit more relevant.

16 MR. WALSH: We are within a few
17 minutes of the end of our program. I do take
18 note in both of the panels that there has been
19 reference a couple of different times to the
20 obligation that we as regulators and others in
21 government are under to make sure that as the
22 new Consumer Bureau is created we make

1 sure that there's coordination of the sort of
2 rules and procedures put in place there to
3 things like CRA and many other areas of the
4 work that we do will have to be mindful of
5 coordinating those things so that you don't
6 have conflicting or an accretion of
7 requirements in the same area.

8 I would just mention one personal
9 anecdote. I've done some work in Africa over
10 the years to the question of service delivery
11 and having gone to one area in Kenya some
12 years ago, communication was impossible.
13 You'd have to drive 20 miles into town to find
14 a phone to do whatever you were going to do
15 and a few years later talking to someone in
16 the area about, what should we do about
17 communication? And the answer was well, why
18 don't you just get a cell phone, because there
19 was cell service now in the place that was
20 completely off of any network that one could
21 possibly imagine. And then a few years after
22 that I was reading an article that said the

1 penetration of cell phone-based banking into
2 those areas of semi-rural Kenya was now quite
3 high and growing. So it is certainly the
4 case. I think Africa is often the case where
5 they kind of leapfrog by just adapting to new
6 technologies and in fact in sort of surprising
7 ways. It may be that we will be seeing more
8 of that.

9 With that, let me thank the
10 witnesses for your remarks. We will now break
11 for lunch. You're free to eat in the
12 cafeteria here at the Federal Reserve and
13 there are signs outside to direct you. It's
14 on this floor, the other side of the
15 elevators. If you do choose to go outside the
16 building, you'll need to leave enough time to
17 re-enter through security because it is a
18 secure building. We will reconvene promptly
19 at 1:30 and I ask our witnesses to be here at
20 1:25 so we can begin on time. Thank you.

21 (Whereupon, at 12:12 p.m., the hearing
22 was recessed, to reconvene at 1:30 p.m.)

A F T E R N O O N S E S S I O N

1:34 p.m.

1 M R . W A L S H : T h e t h i r d p a n e l t h a t
2
3 w e w i l l h e a r f r o m t o d a y c o n s i s t s o f C e y l
4
5 P r i n s t e r o f C o l o r a d o E n t e r p r i s e F u n d ; R o b e r t o
6
7 B a r r a g a n o f V a l l e y E c o n o m i c D e v e l o p m e n t
8
9 C e n t e r ; C l a r e n c e W i l l i a m s o f C a l i f o r n i a
10 C a p i t a l F i n a n c i a l D e v e l o p m e n t C o r p o r a t i o n ;
11 A l a n F i s h e r o f t h e C a l i f o r n i a R e i n v e s t m e n t
12 C o a l i t i o n ; P r e e t i V i s s a o f T h e G r e e n l i n i n g
13 I n s t i t u t e ; a n d J o a n L i n g o f t h e C o m m u n i t y
14 C o r p o r a t i o n o f S a n t a M o n i c a , p r e s e n t i n g f o r
15 t h e L o w I n c o m e H o u s i n g I n s t i t u t e .

14 A n d w i t h t h o s e b r i e f i n t r o d u c t i o n s
15 l e t m e a s k M s . P r i n s t e r t o b e g i n .

16 M S . P R I N S T E R : T h a n k y o u v e r y
17 m u c h . O n b e h a l f o f C o l o r a d o E n t e r p r i s e F u n d
18 I a p p r e c i a t e t h e o p p o r t u n i t y t o e n g a g e i n a
19 d i s c u s s i o n o n m o d e r n i z i n g t h e C o m m u n i t y
20 R e i n v e s t m e n t A c t . C o l o r a d o E n t e r p r i s e F u n d i s
21 t h e C D F I t h a t h a s b e e n h e l p i n g s m a l l
22 b u s i n e s s e s a c r o s s t h e S t a t e o f C o l o r a d o f o r

1 nearly 35 years. We provide access to
2 affordable, flexible loan capital and offer
3 advisory services to build the management
4 capacity of business owners and entrepreneurs.

5 Our goal is to provide economic
6 opportunity to low- and moderate-income
7 individuals by catalyzing business formation
8 and growth as the economic engine for healthy
9 communities in our state. The CRA overall has
10 fostered community and economic development
11 well supporting countless organizations,
12 strategies and initiatives in addition to
13 lending. It has helped create economic
14 opportunity by connecting under served markets
15 with financial capital and services.

16 I will be discussing CRA as it
17 relates to the needs of small business since
18 this is the area in which I work and which I
19 believe needs increased focus.

20 The current economic crisis, which
21 started as an implosion in the home mortgage
22 market has now become a calamity for small

1 businesses, which are the mainstay of jobs and
2 economic vitality in this country. And I
3 believe CRA can do more to help address this
4 calamity.

5 In addition, these conversations
6 about CRA should dovetail with the findings of
7 a series of over 40 meetings held across the
8 country this year by the Federal Reserve on
9 addressing the financing needs of small
10 business, which identified issues that have
11 impacted the supply of credit to small
12 business.

13 When the bar for safety and
14 soundness of lending to small business is
15 raised so high as to make it impossible to get
16 a loan, economic development is halted.

17 Both sides of the house need to be
18 talking to each other so that different
19 government stakeholders are not sending
20 conflicting messages, as has been experienced
21 in the current environment.

22 The Federal Reserve small business

1 meetings identified credit gaps that updated
2 CRA policies could help, such as the
3 need for lines of credit and working capital,
4 refinancing maturing loans, small dollar loans
5 under \$200,000, patient capital for business
6 needs that take time to generate revenues for
7 debt service, and loans to distressed
8 industries like construction, retail, and
9 service businesses. Also, start-up capital is
10 almost impossible to obtain but in high demand
11 as unemployed workers want to launch new
12 businesses.

13 One possibility for addressing
14 some of these credit gaps is to give CRA
15 credit for SBA 7A loans of any amount in the
16 same way that SBA 504 loans over a million
17 already are eligible for CRA.

18 Checking data on all SBA 7A
19 lending and incorporating it into CRA
20 evaluations would foster increased business
21 lending for working capital, business startups
22 and acquisitions, and certain debt

1 restructures.

2 The SBA guarantee provides safety
3 for the bank while helping the business obtain
4 loan capital.

5 Nevertheless, there will still be
6 gaps. Businesses that are denied credit or
7 perceived that they will be denied will turn
8 to alternative sources of capital that are not
9 optimal for sustained economic development,
10 such as using credit cards and retirement
11 accounts, adjusting terms on receivables and
12 payables, and using expensive factoring.

13 CDFIs present the option of
14 patient, responsible, and flexible business
15 capital, successfully executing loans
16 perceived as high risk, and providing access
17 to capital in times of economic turbulence.

18 Colorado Enterprise Fund has
19 numerous successful bank partnerships with
20 national, regional, and small community banks
21 that have provided us with the investment
22 capital for loans to small businesses for many

1 years.

2 Our bank partners see these
3 investments as an efficient means of reaching
4 markets or populations that are difficult for
5 them to serve due to various economic and
6 regulatory constraints, especially in limited
7 scope markets where they have a smaller
8 presence.

9 While banks have been a critical
10 partner of CDFIs, a modern CRA would encourage
11 financial institutions to expand their
12 investments in CDFIs by giving these
13 partnerships more weight through data
14 collection and factoring CDFI relationships
15 more heavily into performance evaluations.

16 A new CRA should also promote
17 innovative approaches to CDFI partnerships by
18 giving banks CRA credit for new financing
19 strategies while still continuing their long-
20 term investments in CDFIs.

21 An example of an effective new
22 strategy that could be adapted in this context

1 is the Colorado Credit Reserve, which is a
2 capital access program that has provided a
3 resource to fund loan losses and has helped us
4 leverage these dollars by a factor of over 15
5 to 1 for the benefit of small businesses.

6 This impact could be replicated as
7 a CRA strategy for banks to employ more
8 broadly in support of CDFIs.

9 The need for technical assistance
10 and business advisory service is an area that
11 could use more emphasis in a revitalized CRA.
12 Home ownership counseling is an accepted and
13 widely supported service identified in CRA
14 recommendations. Technical assistance to
15 businesses will help them prepare for bank
16 financing and long-term viability, thus
17 promoting sustained economic development.

18 CRA could develop mechanisms to
19 support CDFIs and other community resources
20 who provide business TA.

21 Thank you for holding these
22 meetings and for allowing me to comment from

1 my perspective as a CDFI supporting small
2 business. I believe that there's great
3 potential for enhancing the CRA regulations to
4 provide sustained economic development, and I
5 look forward to the discussion. Thank you.

6 MR. WALSH: Thank you. Mr.
7 Barragan?

8 MR. BARRAGAN: My name is Roberto
9 Barragan. I am President and CEO of VEDC, the
10 Valley Economic Development Center.

11 On behalf of VEDC, I appreciate
12 this opportunity to provide comment on
13 strengthening and modernizing the Community
14 Investment Act.

15 VEDC is the largest small business
16 development organization in metropolitan Los
17 Angeles, serving over 6,000 businesses
18 annually with direct lending, technical
19 assistance training and workshops.

20 VEDC is a certified community
21 development finance institution with an
22 existing \$15 million small microbusiness loan

1 portfolio. And we recently secured capital
2 from the City of Los Angeles and Goldman Sachs
3 to support another \$21 million in small
4 business lending.

5 VEDC has been a Small Business
6 Administration micro lender for over 12 years
7 and operates the largest Economic Development
8 Administration revolving loan fund in
9 California.

10 We are also the sponsor of a
11 federally chartered loan fund credit union with
12 \$2.4 million in assets that ranks in the top
13 75 of SBA lenders here in Los Angeles.

14 And lastly, VEDC is an affiliate
15 that does SBA 504 lending.

16 For the last 24 months, VEDC has
17 been at the epicenter of the worst small
18 business credit crisis since the Great
19 Depression. SBA lending has dropped 50
20 percent over that time and large national
21 commercial banks that led small business
22 lending for loans below \$100,000, and who

1 suffered millions of losses due to steady
2 income loans have walked away from the market,
3 leaving huge gaps in credit availability.

4 At the same time, small business
5 watched as the home equity lines, credit
6 lines, and lines of credit that we depend
7 upon were terminated. Finally, here in Los
8 Angeles, regional business banks, those
9 responsible for supporting small and medium
10 businesses, are facing millions of losses due
11 to commercial real estate failures.

12 After two years of recession,
13 start-up capital is non-existent, and existing
14 small business lending by national banks is
15 limited to business credit cards and loans
16 above \$200,000. With 50 percent of California
17 banks under some type of regulatory control,
18 many banks cannot make small business loans,
19 or have to limit them to relatively risk-free
20 real estate financing at 50 percent loan to
21 value.

22 Just as we now see the long-term

1 unemployed stop looking for jobs, we also now
2 see small businesses stop looking for capital.
3 As existing businesses come out of the
4 recession and seek to become part of the
5 sputtering recovery, they have given up
6 looking for capital, tired of loan denials.
7 And while they have real expansion
8 possibilities, rather than borrow to support
9 growth, they grow organically from profits.
10 So rather than job creation in the desperately
11 needed tens and hundreds, we have job
12 creations in the ones and twos.

13 Finally, federal efforts to
14 encourage small business lending either depend
15 on those same banks who are under regulatory
16 control or have suffered huge credit losses,
17 or safe banks that have -- or seek to have --
18 banks borrow from them at low rates, seemingly
19 unconscious of the fact that capital is at
20 risk when the loans are made. Sheet money
21 does not tempt more small business lending.
22 It funds additional large business and real

1 estate lending.

2 To strengthen and modernize CRA to
3 the benefit of small business, I would ask,
4 eliminate regulation B and the bank's ability
5 to meet CRA small business lending benchmarks
6 through credit cards and other revolving debt.
7 Loans below \$100,000 and to businesses with
8 revenues under \$1,000,000 are no longer
9 adequate indicators of either small business
10 lending or lending to minorities.

11 Doctors, dentists, and other
12 professionals with net incomes much greater
13 than most small business have benefitted from
14 this loophole, not small business, which
15 provides in every economist's forecast -- will
16 be the source of jobs to come.

17 Transparency should be the minimum
18 requirement of all lending, not the exception.
19 We must accept the fact that bank-based
20 solutions to our small business credit crunch
21 ignores their own plight and encourages
22 rhetoric rather than action.

1 residents, not for real estate investment
2 corporations that use CRA to garner investments
3 they can't raise otherwise.

4 These for-profits should not be
5 allottable community investments given the
6 current ability of small business to grow and
7 hire and our critical and current inability to
8 do so without capital.

9 We have waited over two years for
10 a recovery to come and small business lending
11 to come back. By all indications, we have
12 another 12 to 18 months before we see some new
13 normal.

14 With 14 percent unemployment here
15 in L.A., we cannot wait that long. We need
16 capital now. We need small business growth
17 now. And we need new jobs now.

18 Thank for the opportunity to
19 provide testimony on the future and importance
20 of the CRA.

21 MR. WALSH: Thank you.

22 Mr. Williams?

1 MR. WILLIAMS: Good afternoon. My
2 name is Clarence Williams and I am President
3 and CEO of California Capital Financial
4 Development Corporation.

5 California Capital is a nonprofit
6 CDFI organization located in Sacramento,
7 California. We have provided financing,
8 business development, training, financial
9 literacy education, and technical assistance
10 for small and micro enterprise bases since
11 1983.

12 With a 27-year history of aiding
13 under served communities we enjoy an exemplary
14 reputation throughout Northern California and
15 the Central Valley. Historically, the
16 Community Reinvestment Act has attempted to
17 address discrimination in loans mainly to
18 individuals in businesses from low- and
19 moderate-income communities.

20 Today, I am here to advocate for
21 the immediate promulgation of regulations
22 adopting the provisions of the Dodd-Frank Bill

1 of 2010 that requires lenders to report race
2 and gender of borrowers of small business
3 loans; the census tract location of the
4 business; action taken with respect to the
5 application, approved or rejected and the
6 revenue of the business.

7 With a fast-growing minority
8 population that will approach 50 percent of
9 the nation's population by 2050, and a highly-
10 competitive global market, America's
11 competitiveness will increasingly depend on
12 the innovation and strength of minority-
13 business enterprises. It is in the best
14 interest of the health of our economy that
15 regulators require financial institutions to
16 collect data that will tell the story of
17 lending activity to small, minority, and
18 woman-owned businesses. This will serve as
19 the catalyst to mitigate disparate lending
20 outcomes to those businesses.

21 As an example, we know that
22 entrepreneurs who use credit cards to start

1 and acquire their businesses may be exposed to
2 higher operating costs because credit cards
3 tend to charge on average higher interest
4 rates compared to other sources of capital.
5 Firms started by using credit cards for
6 capital are usually at a cost disadvantage
7 compared to firms that were started with other
8 sources of capital.

9 Accordingly, a national study
10 completed in 2007 by the Insight Center for
11 Community Economic Development found that
12 entrepreneurs of color are more likely to turn
13 to credit card debt as a way to finance
14 business start up, an expensive and risky
15 financing mechanism. Their data shows that 19
16 percent of white males receive business loans
17 from banks as opposed to 9 percent Hispanic
18 and African-American business owners.

19 Furthermore, regulatory agencies
20 need to collect the following data: loans
21 less than \$250,000 and between \$251,000 and
22 \$500,000 to businesses with revenues, of \$1

1 million or less annual; loans that compare
2 overall small business lending to the
3 proportion of lending to small, woman-owned,
4 and minority-owned businesses in low-income
5 neighborhoods; as well as the overall amount
6 of lending; annual percentage rate of loans,
7 identification of term loans, and lines of
8 credit, as well as interest rates.

9 It is also important to emphasize
10 the access to business advisory services
11 including technical assistance in financial
12 literacy education for low- and moderate-
13 income individuals and business owners is
14 severely lacking. Small and micro enterprise
15 businesses have an enhanced opportunity of
16 realizing success and sustainability if there
17 is greater access to these services.

18 Finally, attention and resources
19 should be directed to the needs of the high
20 growth immigrant, refugee, and limited non-
21 English proficient business market. These
22 recommendations as I have set forth today are

1 an attempt to correct for past and present
2 discrimination and to prevent such from
3 reoccurring in the future.

4 Thank you for your time and
5 consideration.

6 MR. WALSH: Thank you. Mr.
7 Fisher?

8 MR. FISHER: Thank you. Is it
9 possible to borrow some of his time? No.

10 (Laughter.)

11 MR. WALSH: He can negotiate it.

12 MR. FISHER: Good afternoon.

13 Thank you for inviting me. I am Alan Fisher,
14 Executive Director of the California
15 Reinvestment Coalition. CRC is a statewide
16 membership organization of more than 280
17 nonprofits, public agencies working around CRA
18 and banking and finance issues for more than
19 a couple of decades.

20 And CRA has really opened the door
21 for community organizations. I think that is
22 one of the things that really needs to be put

1 out there. I mean, I have friends, not close
2 friends, but friends who work for bank funds
3 and they can't meet with the CEO. We meet
4 with the CEO and that is something that only
5 could have happened with CRA.

6 But at the same time, I really
7 want to speak to the four of you and your
8 agencies because you let us down in the last
9 five or ten years. You could have stopped
10 some of this. We asked you to look at
11 subsidiaries and affiliates. We asked you to
12 look at small business, all of these things.
13 We really need you to be regulators, to not
14 let this happen to our country again. So I
15 hope that you hear that.

16 I think one of the things that we
17 hope is that you will really listen to the
18 community more than you have before. We may
19 be biased in this but it seems like the banks
20 spoke louder than we did at any of the
21 agencies.

22 I think one piece of this is

1 community contacts. Just to give you an
2 example, we met once in Washington, D.C. with
3 the OCC, maybe 12 or 15 leaders from
4 California, and we were talking about
5 community contacts. I just happened to ask
6 unrehearsed. No one in that room had had a
7 community contact from one of your agencies to
8 ask about the banks. And these are leaders in
9 the community.

10 So I really hope that can change.
11 I hope that you will listen to the community
12 more. I hope that we can avoid having another
13 crisis like this.

14 I am going to try not to
15 repeat things that others have said, my
16 colleagues, about small business but I have
17 got a couple of quick things on geographic
18 coverage.

19 One is, if there is a bank that
20 has one branch or a few and it lends across
21 the country, they need to be responsible in
22 the area where they do significant lending.

1 My favorite example of this was Countrywide
2 Bank that in my neighborhood said they had no
3 responsibility for deposits that they
5 collected. No responsibility in San Francisco
6 which probably is not an under-served
7 community in great part.

8 The other thing is that non-
9 metropolitan and rural areas are too often
10 overlooked. I mean what banks are telling
11 community groups is that these areas are not
12 in their "CRA lending areas." And I think you
13 bear responsibility for that as well. Not all
14 of it. But we need to not do sampling. We
15 need to look at rural areas. What is
16 happening is that areas that already have very
17 little are being even further left alone.

18 To me if a bank is too large
19 to fully evaluate, maybe it presents systemic
20 risk and shouldn't exist at that size.

21 So the CRA performance test, CRA's
22 goal, is equal access. Banks should be

1 evaluated on how closely they approach
2 equality in their lending, investments, and
3 services. I mean, are they providing products
4 that serve low-income people and people of
5 color? Too often what we see, and my staff
6 tells me this is a dated reference, but
7 one-size - fits - all would be great for
8 Ozzie and Harriett, and looking at this
9 audience many people do know Ozzie and
10 Harriett, but not for people with less income.
11 Not for people with different cultures.

12 Secondly, does the proportion of
13 lending service investments match the
14 proportion of the population? I mean, I would
15 say it never does but are they approaching
16 that? Is it getting there? Are the branches
17 matching the population? Because managers of
18 branches get judged on where they serve their
19 area. If there is no branch, there is nobody
20 worrying about that neighborhood. And it is
21 clear from every study that color prejudice is
22 alive and well. And CRA examinations need to

1 have a greater evaluation of disparate impact.

2 We agree with a recent report from
3 the California Small Business Task Force
4 convened by this bank and its recommendation
5 that any acquirer of regulated financial
6 institutions agree to honor any existing
7 publicly announced community reinvestment
8 agreement or plan. We think it is a great
9 disservice to communities that one bank after
10 nother has merged and there is no public
11 comment.

12 You know, we now have four banks
13 in the State of California that have 60
14 percent of the deposits in the State of
15 California. That means that it is very
16 difficult to control those banks.

17 I want to support what my
18 colleagues said about Dodd-Frank. We wish
19 that you would implement those features
20 immediately and about entities, businesses
21 with less than a million dollars, they ought
22 to be looked at.

1 opportunity to contribute to those discussions
2 of such an important issue.

3 As I speak, we are witnessing an
4 unprecedented loss of wealth in communities of
5 color across the nation. A leading reason for
6 this loss of wealth is the growing loss of
7 home equity. According to the Center for
8 Responsible Lending, widespread foreclosures
9 have drained an estimated 350 billion dollars
10 from communities of color. For every 100
11 African American homeowners, 11 have either
12 lost their homes or are at risk of
13 foreclosure. For Latino families, the figures
14 are worse. It comes to 17 of every 100
15 homeowners who are touched by foreclosure.

16 While foreclosures are, of course,
17 a key part of the picture, they are certainly
18 not the whole picture. Beyond losing their
19 homes, people in our communities have been the
20 last hired and first fired, and have lost a
21 disproportionate number of small businesses,
22 which has led toward a growing racial wealth

1 gap.

2 For every dollar of wealth owned
3 by a white family, an African American or
4 Latino family owns just 16 cents. And I would
5 love to show you that the same trends exist
6 for the Asian-American community but of course
7 we don't have the desegregated data for that.

8 The modernization and enhancement
9 for CRA has the potential to address many of
10 these inequalities. Yet as it is written
11 today, it lacks the power to truly do so.
12 Despite the strengths of CRA, we know it can't
13 be effective unless it is embraced and
14 promoted by regulators and financial
15 institutions. We are, therefore, pleased that
16 the federal regulators are proactively seeking
17 input today for these hearings.

18 Given the magnitude of the crisis
19 facing communities, Greenlining recommends the
20 following for immediate implementation.

21 Number one, immediately place
22 diversity front and center in the application

1 of CRA. First and foremost, we must embrace
2 the fact that diversity matters. CRA ratings
3 must take into account the extent to which a
4 financial institution commits to diversity in
5 the workplace and among executive management.

6 The 2009 Greenlining annual board
7 diversity report shows that in California,
8 people of color represent 60 percent of the
9 population, yet corporate board structures are
10 nowhere near that level of diversity, despite
11 research from California that shows that
12 diverse boards produce higher performance on
13 metrics such as return on equity, return on
14 sales, and return on the invested capital.

15 Unless and until the boards and
16 executive management teams at financial
17 institutions reflect the diversity of the
18 customers they serve, we truly cannot have a
19 safe and sound banking system.

20 Number two, immediately add
21 supplier diversity to the CRA evaluation
22 process. The rapid hemorrhaging of jobs and

1 assets in our communities can at least
2 partially be addressed through better
3 attention to the needs of minority owned
4 business. Small business are among the top
5 job creators in low-income communities and
6 communities of color but many small minority
7 owned businesses face difficulty accessing the
8 contracts and enabling them to grow.

9 An incredibly successful model in
10 California, General Order 156 or GO 156, has
11 placed California light-years ahead of other
12 states and minority business contracting. GO
13 156 has moved the diversity in major
14 utilities and telecoms in California to as
15 high as 30 percent, where they have around
16 five percent in other states, through simple
17 goal setting and transparency and without any
18 quotas or mandates. This model should be
19 replicated by the financial regulators.

20 Under an enhanced CRA, banks
21 should be required to submit annual reports on
22 their supplier diversity numbers and to

1 participate in an annual hearing to discuss
2 their reports.

3 Number three, create positive
4 incentives for innovation. The current CRA
5 system has never figured out to reward unique
6 leadership efforts, as was mentioned in the
7 previous panel. Either we see satisfactory
8 ratings for occasionally extraordinary
9 leadership, or outstanding ratings for
10 mediocre efforts.

11 Banks should be able to receive
12 CRA credit by meeting the needs of communities
13 through responsible innovations. A return to
14 conventional lending products should not
15 preclude creative, innovative and safe
16 products that have less conventional terms and
17 respond to new trends in building community
18 economic strength. Such innovation should be
19 highlighted as best practices and rewarded
20 with credit from a revised CRA.

21 And fourth and finally, make CRA
22 matter again. The world has changed since CRA

1 was enacted in 1977 and its failure to keep up
2 has diminished its effectiveness. We can make
3 CRA matter again. The financial sector of
4 that era would be unrecognizable today and
5 many financial services critical to wealth
6 creation are now provided by institutions not
7 covered by CRA.

8 A modernized CRA must be expanded
9 to cover these other industries, including
10 investment banks, insurance, hedge funds,
11 private equity firms, and of course any
12 troubled institution that benefits from
13 federal intervention.

14 Former Chairman Greenspan himself
15 recently acknowledged that federal regulators
16 were not proactive enough in protecting
17 consumers from fraudulent practices by these
18 industries. Given this new perspective, we
19 urge the regulators to take initiative to
20 expand the purview of CRA to these
21 institutions.

22 Once again, I think you for the

1 opportunity to show Greenlining's views on the
2 future of CRA and I welcome your questions.
3 And I am very glad I didn't hear that ding.

4 (Laughter.)

5 MR. WALSH: Well, you spoke fast
6 enough. Ms. Ling.

7 MS. LING: Good afternoon. My
8 name is Joan Ling, Executive Director,
9 Community Corporation of Santa Monica. I am
10 presenting this testimony on behalf of Sharon
11 Lee of the Low Income Housing Institute in
12 Seattle, Washington.

13 LIHI is a nonprofit housing
14 organization. It has developed over 3,800 units
15 of affordable housing in six counties in the
16 Puget Sound region from supportive housing for
17 the homeless to for sale condominiums for
18 moderate-income families, as well as it
19 advocates on housing policy, housing
20 preservation, and homeless issues. For over
21 15 years, it coordinated activities of the
22 Washington Reinvestment Alliance to ensure

1 that CRA commitments are honored in Washington
2 state.

3 Modernizing and improving CRA is
4 sorely needed. The federal agencies must
5 revamp the evaluation tools to clearly
6 quantify the CRA benefits to low- and
7 moderate-income communities and people of
8 color. The system is flawed if 99 percent of
9 the banks pass their CRA exam, yet low- and
10 moderate-income consumers and communities of
11 color are not being adequately served. This
12 is evidenced by the subprime loan foreclosure
13 crisis, the proliferation of payday loans and
14 the lack of community development financing
15 for nonprofit affordable housing developers.

16 I would like to address four
17 issues related to small business and consumer
18 lending. In the State of Washington in 2008,
19 there were 250,000 small business loans made
20 with a dollar amount of 6.6 billion dollars.
21 The banks need to collect information
22 separating out dollar volume and number of

1 loans made to minority and women-owned small
2 businesses, as well as identifying those loans
3 made in distressed areas.

4 Number two. Banks should offer a
5 range of consumer loan products that serve
6 low-income and moderate-income borrowers. The
7 federal agencies should establish benchmarks
8 to assess the quantity, quality, and
9 affordability of these products and ensure
10 that low cost banking accounts, financial
11 education and services to the unbanked are
12 offered in the assessment areas.

13 Number three. Today payday loan
14 offices are prevalent in low-income
15 neighborhoods and they outperform mainstream
16 banks in serving low-income families and
17 individuals. The federal agencies must
18 require banks to recommit and expand their
19 operations, including locating branches, ATMs,
20 home mortgage and business centers in low-
21 income and minority communities.

22 Number four. In the State of

1 Washington, an increasing number of Latino
2 families with children are living in mobile
3 homes. These families are in needs of an
4 affordable loan product to purchase their
5 homes, or otherwise, be subject to usurious high
6 interest rates in the double digits.

7 In the area of data collection,
8 reporting disclosure and performance
9 evaluations, we have three points that we
10 would like to make. First, the HMDA
11 information must include a sufficient amount --
12 provide information on the quantities of the
13 loans with reasonable terms to minority and
14 low-income households. LIHI recently
15 completed 48 town homes for first-time buyers
16 with modest means in the Seattle area. Some
17 immigrant families, many with extensive
18 savings and no debts, were put through the
19 ringer in qualifying for home loans because
20 they had no credit cards, no car loans, paid
21 the bills on time and, therefore, had no
22 credit rating. They were initially rejected

1 for loans. It is not acceptable for minority
2 households with alternative credits to be
3 treated this way.

4 Number two, financing of
5 affordable multi-family housing should be
6 given as much, if not more weight than single
7 family loans because the bulk of the low-
8 income people are served by rental housing.
9 Nonprofit developers in the Pacific Northwest
10 are in particular need for fixed-rated long-
11 term debt. In addition, we ask that land
12 acquisition loans, working capitals, and EQ2
13 investments for affordable housing be a
14 requirement in order to achieve CRA
15 satisfactory rating.

16 In the process of assessing a
17 bank's performance under CRA, the assessment
18 should be open to community input, including
19 an appeal process for the community to go
20 through and that such appeal should allow for
21 conditions to be required of the bank to
22 improve their performance in key areas over a

1 limited time frame.

2 Thank you very much for hearing
3 me.

4 MR. WALSH: Thank you. We again
5 have a large panel and we are going to go with
6 an eight minute round of questions. We will
7 start with Ms. Braunstein.

8 MS. BRAUNSTEIN: Thank you. My
9 first question I wanted to address first of
10 all to Alan and then if anyone else wants to
11 comment feel free. It is kind of a two-
12 parter.

13 Alan, in your testimony, your
14 written testimony, and you mentioned it
15 briefly in your statement, you talked about
16 the assessment area definition and you put
17 forward an idea that has been put forward in
18 other CRA hearings we had previously where
19 banks should be responsible for areas where
20 they do, and I think you used the term,
21 significant amounts of business.

22 I was wondering, the first part

1 is, could you put some sort of definition on
2 what you mean by significant. How should we
3 define that, if we went in that direction?

4 And then, the second part is, do
5 you have any concern at all or anybody up
6 there, that if we went in that direction that
7 it would cause banks to pull back from some
8 areas where they are currently doing business
9 because if they get close to that threshold
10 where all of a sudden they are responsible for
11 the area, they may pull back from that area
12 all together because they don't want that
13 responsibility.

14 So are you concerned about
15 unintended consequences about moving in that
16 direction for assessment areas and what do you
17 consider significant are the two parts.

18 MR. FISHER: I, I think it is
19 a very complicated question and I put in
20 significant because I don't know the answer to
21 that. It seems like we need to look at some
22 examples and really see.

1 For the one-branch bank or the
2 internet bank, I was thinking the unintended
3 consequences you were asking about was
4 different. Maybe for a large retail bank there
5 would be such unintended consequences because
6 they gave less where their branch areas were
7 and gave more outside.

8 But I think all of those things
9 are good questions that really need to be
10 examined by looking at practical examples and
11 seeing. I think it is clear that branches are
12 not the place that banking takes place in the
13 way it did in '77.

14 And I think the other thing is,
15 we would really like to be part of
16 the discussion that looked at examples and
17 tried to be better at assessing that. And I
18 am sorry for not a good answer.

19 MS. BRAUNSTEIN: Well you know, it
20 is difficult and that is why I am
21 asking you to put it forward if you had

1 some idea. Well I guess what you are saying
2 is that we are all smarter than you are so we
3 can figure it out.

4 (Laughter.)

5 MS. BRAUNSTEIN: No, just kidding.

6 MR. FISHER: Well, I think that
7 goes without saying. But I think we really
8 need to investigate it and we haven't, and
9 really work at it and not kind of throw out
10 some number. Because I think the end of it
11 that deals with retail banks, like you are
12 saying, could have unintended consequences in
13 a number of ways.

14 MR. BARRAGAN: If I might, just as
15 years ago branches and deposits are going to
16 be an indicator of investment in the
17 community. As Alan has said, that is
18 completely true with technology.

19 Now let's move to the question of
20 business services and lending being done in
21 the community. And I think that any bank that
22 is lending more than ten million dollars

1 should be part of a bank's assessment area.

2 In addition, to your second
3 question, the fact is a bank, an institution,
4 is lending in an area within a community
5 because it is profitable. Now they have
6 assessed there because it is profitable and it
7 would be profitable to the next bank who might
8 be able to do the same bit of business.

9 So you know, as long as there is
10 profitability, those banks are not going to
11 back away from it simply because now it
12 becomes part of their assessment area.

13 MR. WILLIAMS: And I think Alan's
14 answer at the end was quite appropriate. I do
15 think this lends itself to more discussion.
16 I think within your response is that you
17 recognize that institutions will game the
18 system, no matter where you draw that line.

19 And to the extent that California
20 Reinvestment Coalition and other entities
21 recognize gaming the system when one has one
22 office in state and one assessment area and

1 serves the rest of the country, that to the
2 same extent, a certain amount of gaming is
3 going in terms of the business plan.

4 The regulators we believe should
5 also be able to recognize this. And I think
6 people sitting around the table and honestly
7 pursuing this will be able to come up with
8 some way to address the concerns that we have
9 about banks being able to escape any type of
10 accountability by gaming the systems in such
11 a blatant manner as has been described.

12 MR. BOWMAN: I have heard a couple
13 of people on this panel and we have heard a
14 number of persons on the previous panels talk
15 about something called an innovative product.

16 I have a very limited period of
17 time and I am going to ask each one of you to
18 give me an example in your opinion of an
19 innovative product. And then the follow-up
20 question after you have all gone through it is
21 give us some suggestions as to how we, as

1 regulators, can greater incentivize those we
2 regulate to offer those kinds of products.

3 I'll start with you, Mr. Barragan.

4 MR. BARRAGAN: I think EQ2, equity
5 equivalent investments, was an innovative
6 product. It has become less so as fewer
7 institutions are doing. It
8 provides for less strain and obligation on a
9 nonprofit organization. I will give you an
10 example.

11 U.S. Bank last year in the midst
12 of the credit crunch made two million dollars
13 available to us to do micro lending throughout
14 Southern California.

15 MR. BOWMAN: To small business --

16 MR. BARRAGAN: To small businesses
17 and microbusinesses. And at that time, back
18 in October of last year if you can remember,
19 you could not find those dollars in
20 particular, and also talking about small
21 businesses. The fact is it was a very short
22 process. It was supportive interest rates and

1 responsibility and today, the Commission have
2 lent the entire two million dollars out to
3 small businesses throughout the territory.

4 Well, at this time equity-like
5 investments have taken on different
6 definitions. And at the end of the day, what
7 it should be is a long-term, below market
8 interest rate, nonrecourse loan to a nonprofit
9 CDFI to make loans if their branches
10 for whatever reason cannot make them.

11 MR. BOWMAN: Mr. Williams.

12 MR. WILLIAMS: I think by
13 definition, an innovative product is something
14 that is very effective. I think all too
15 often, we are looking for bells and whistles.

16 To me, as I begin to look at the
17 data and the needs in low-income communities
18 in order to access financing, access credit
19 from financial institutions, I find that one
20 of the major impediments going forward are low
21 credit scores and terrible credit behavior.

1 It would seem to me then that the ability to
2 implement effective financial education is
3 innovative.

4 I was glad to hear Bank of America
5 say that they are sending out loan officers.
6 They are sending out bank personnel just to
7 show up to various classes to talk about
8 financial education. It is not necessarily
9 effective, as it is when they use financial
10 intermediaries in the community.

11 To the extent that we want to make
12 capital available in low-income communities,
13 communities of color, unless we deal with the
14 issues of credit behavior and credit scores,
15 we are not going to overcome those barriers.
16 Therefore, something as simple and executed
17 well as financial education can be
18 extremely innovative, without necessarily
19 having all the bells and whistles that we
20 usually come to see as being innovative.

21 MR. BOWMAN: Mr. Fisher.

22 MR. FISHER: Yes, thank you.

1 So I think of an innovative product as something
2 that brings more people into the financial
3 mainstream. One example of that, one California
4 bank in Oakland has an essential bank account.
5 It is a checklist checking account. You get
6 free money orders and you have a card that can
7 be used at point of sale and ATMs. So it is
8 very difficult to overdraft. And it kind of
9 replaces and competes with the check casher.

10 So I think that is a good example.
11 Incentivizing, I am a little uncomfortable in
12 some ways with that. There ought to be
13 recognition but many of things I think are the
14 things that should be a matter of course and
15 not seen as a huge change.

16 MR. BOWMAN: I am suggesting
17 incentivizing in terms of incentivizing
18 institutions to perhaps spend the kind of time
19 that you have with coming up with these
20 products identifying the community,
21 identifying the product, the service, whatever
22 it is they want to provide, and to then carry

1 it out. That is where the incentive comes
2 from.

3 MR. FISHER: Okay.

4 MR. BOWMAN: Yes?

5 MS. VISSA: Sure. I've got two
6 points. One is a quick example of many of the
7 partners in the room today from financial
8 institutions who can tell you about loan products
9 that they had for home mortgages, prior to
10 about two or three years ago, that were
11 specifically tailored for low-income families
12 with reduced FICA scores, and reduced down
13 payment assistance, that kind of a thing.

14 MR. BOWMAN: The kinds of things
15 Mr. Williams is referring to or --

16 MS. VISSA: Exactly.

17 MR. BOWMAN: -- perhaps not as
18 far?

19 MS. VISSA: Perhaps even further,
20 really.

21 MR. BOWMAN: Okay.

22 MS. VISSA: I think that there

1 were quite a few that no longer exist today
2 but the record shows that those homeowners did
3 not default at a higher rate than most others.

4 So it would be a return back to
5 really finding a way to make sure that those
6 people who are not accessing products today
7 can access them.

8 The other thing is really making
9 sure that you are ahead of the curve today.
10 We know that green investments are sort of at
11 the top of everybody's mind and yet we want to
12 make sure that we are not coming back to the
13 table five years from now and saying something
14 else is where all the money is coming from and
15 all the investing that is coming in, and we
16 need to rewrite CRA to allow for that kind of
17 adaptation from the banks.

18 MR. BOWMAN: Thank you. Ms. Ling.

19 MS. LING: I'm not sure if it is
20 innovative but it is asking the bank to take
21 a leadership role in addressing the borrowing
22 needs of nonprofits with affordable housing

1 developers.

2 I think the banks could take a
3 lead in coordinating with foundations, doing
4 a program investment in local cities to
5 provide acquisition loans, working capitals
6 and other risky loan investment up front to
7 cover the cost of starting these projects.
8 Because one of the most challenging aspects of
9 trying to get this early money is that the
10 banks are only willing to put in 60, maybe 70
11 percent and then the rest the nonprofit has to
12 cobble together from other sources. To have
13 a one-stop shop where different partners come
14 in to cover different tranches of risks would
15 be a service that is much needed.

16 MR. BOWMAN: Thank you. Ms.
17 Prinster.

18 MS. PRINSTER: I did mention one
19 thing in my testimony.

20 MR. BOWMAN: Right.

21 MS. PRINSTER: But before I go to
22 that, I would like to just piggyback on what

1 Roberto was saying about EQ2s and actually the
2 two items are related in terms of the lost
3 reserves.

4 One of the issues
5 that has seemed unfair to me is the
6 expectation that, and it is a reasonable
7 expectation, that those EQ2s, that those banks
8 would always be whole on those EQ2s, and yet
9 they are out. By virtue of the relationship,
10 we are being asked to make loans that are more
11 risky than a bank would make. And so there
12 needs to be some recognition that at some
13 point there would be some sharing or
14 breakdown of those EQ2s that would be
15 acceptable and that wouldn't prevent us from,
16 well prevent the bank from, having any kind of
17 criticism or from us even having the hope of
18 getting another one in the future.

19 So the whole issue of loan losses
20 is a concern for a nonprofit. You mentioned
21 cobbling together the resources. Here we are
22 asking to having to go out and try to raise

1 contributions for equity to cover loan losses.

2 Who wants to give money for that?

3 The program that we have in
4 Colorado has included CDFIs as part of this
5 loan loss preserve program, Colorado credit
6 reserve, and as we look forward and project in
7 the future and how it is going to help us to
8 be a more financially sustainable organization
9 for the long-term by helping us to cover the
10 losses, it seems to be a great program. It
11 has really done a lot to leverage resources.
12 We have to still be responsible because we
13 don't want to use up our whole reserve on a
14 few loans. And it seems like a great thing
15 that putting together a variety of resources
16 to build up these reserve pools would help
17 CDFIs greatly.

18 Would you like to take the second
19 round?

20 MR. CURRY: Thank you, John. I
21 would like to ask about the panel's views on
22 CRA performance ratings and incentives.

1 Ms. Ling, in your written
2 testimony you recommended more grades, I think
3 you specified an outstanding plus rating. I
4 was wondering if you would elaborate on that
5 and any other ideas you may have in adjusting
6 our rating system and as part of your
7 response, to what extent. This picks off of
8 what Director Bowman was talking about.

9 What are the appropriate
10 incentives we can use through the rating
11 system to encourage lending and other
12 commitments by bank?

13 MS. LING: Well, I think that
14 Sharon Lee and the Low Income Housing
15 Institute in Washington would like to see more
16 weights be given to multi-family housing
17 lending over single-family loans. So that is
18 one area where that the Pacific Northwest is
19 looking to weigh the performance, this are a of
20 performance differently.

21 That is it.

22 MR. CURRY: Thank you. Ms. Vissa?

1 MS. VISSA: Sure. I think part of
2 the concern comes from the fact that as
3 community advocates 99 percent of all banking
5 institutions pass the CRA exam and a large
6 percent are receiving outstandings, it is hard
7 for us to differentiaite between good, better,
8 and the best. And I think that is where the
9 outstanding plus rating comes into play. It
10 is really differentiating between those
11 extraordinary efforts that have been taken and
12 just meeting the bar.

13 We would recommend that there
14 actually be sort of like a curve in school,
15 where only about the top five or top ten
16 percent can receive an outstanding plus and
17 then there tends to be more of a collaboration
18 and/or competition among the field as well.

19 I think a lot of the discussion in
20 the earlier panel about the community
21 development test comes into play here when we

1 talk about incentives. Merely allowing for
2 those opportunities for new ways to meet
3 community needs, to get to that next level,
4 one aspect that cannot be forgotten is what
5 Alan mentioned, which is the community itself
6 and their voice, trying to find a way to have
7 their assessment be part of the program.

8 MR. CURRY: Thank you. Mr.
9 Fisher?

10 MR. FISHER: These are great
11 questions.

12 You know, we used to have a section
13 of our newsletter, the bad dog section, where
14 anyone that got less than a satisfactory was
15 in there. And there has been no one in
16 California for years. And I think we have had
17 a lot of conversations with some of you about
18 grade inflation. And so I do think that maybe
19 one possibility is just to add. I have always
20 liked the idea of a curve, after not liking it
21 too much as a student, but to bring community
22 development up to a higher level, not as sort

1 of extra credit but as an intimate part of
2 what happens. So I would think that.

3 And I go back and forth on the
4 issue of incentives because certainly
5 incentives help but this is supposed to be the
6 business. But maybe there are rules or
7 something like that that recognize without
8 doing more than that. And I do think that
9 banks of a certain size should be expected to
10 get an outstanding. You know, if they don't,
11 there ought to be some negative aspect to it
12 because they should be able to.

13 MR. CURRY: Thank you. Mr.
14 Williams?

15 MR. WILLIAMS: Yes, I think this
16 question somewhat overlaps with the discussion
17 this morning.

18 I think the area of evaluating
19 banks ought to be how well they play together
20 in regards to the CRA. All too often the
21 issue is banks unwilling, unable to come
22 together to work on placed-based, community-

1 based needs, as identified under the
2 performance context, hurting a lot of
3 nonprofits and the work that we do.

4 All too often, a bank is only
5 interested if they have their name on this
6 project. They get to brand it. They get the
7 credit. They are the lead. Whereas, we are
8 likely to get better results if we could find
9 them working in a collaborative manner.

10 Now the only way that is going to
11 happen is that you are going to have to give
12 them credit and you are going to have to
13 incentivize them in working together in an
14 environment, other than just multibank CDCs.

15 So to the extent that you can
16 bring more resources together working on some
17 of these problems, where it is not necessarily
18 looked at as being competitive or proprietary,
19 I think the communities will be far more --
20 they will benefit far more.

21 MR. CURRY: Thank you. Mr.
22 Barragan?

1 MR. BARRAGAN: Actually, I have a
2 unique position here. I serve on community
3 bank board of directors. It is about a 500
4 million dollar bank located in Encino that was
5 just into their CRA exam with the FDIC. I
6 also serve as the chairman of the CRA
7 committee. So I have a very unique position
8 looking at how you evaluate us.

9 This is a bank that did receive an
10 outstanding rating. It commits ten percent of
11 net income to charitable contributions. It
12 provides significant small business
13 development lending to moderate- and low-income
14 customers. It makes investments in low-income
15 credit unions and in minority-owned banks. It
16 has significant participation in government
17 lending programs and it relies little on
18 mortgage-backed securities and tax credits for
19 CRA credit. That I think is an outstanding
20 rating. I don't see that with many banks.

21 MR. CURRY: Ms. Prinster.

22 MS. PRINSTER: Well being the last

1 in line again, this is great. I like that.
2 I guess I was just kind of taking some notes
3 here and I came up with four items from
4 previous commenters that start with a C. So
5 maybe this will just summarize the comments
6 here.

7 Community development test I think
8 is a great idea. Conversation with the
9 community, having that discussion in an open
10 and transparent way when there are exams with
11 community stakeholders. Collaboration with
12 each other is a great principle to try to
13 evoke as part of the process. And I like the
14 idea of contributions, just be ten percent or
15 whatever percentage, some kind of percentage
16 of profits contributing to things that will
17 help community development, such as the
18 technical assistance that we have been talking
19 about and other types of services that CDFIs
20 for example. But other resources and
21 nonprofits could also contribute to building
22 up capacity in low- and moderate-income

1 neighborhoods and populations.

2 MR. CURRY: Thank you very much.

3 John.

4 MR. WALSH: I would like to return
5 to a question that I asked the last panel
6 because I think it is kind of given a little
7 different flavor in the comments a number of
8 you have made. And that was in the last
9 discussion that we had, in thinking about
10 things like small business lending or
11 foreclosure prevention and neighborhood
12 stabilization, there is, it seems to me, a
13 certain tendency in thinking about how to deal
14 with those issues, especially in the current
15 economic climate, to kind of blow up the base,
16 to think about doing more things in small
17 business that perhaps loosen links to a narrow
18 definition of low- and moderate-income,
19 whereas a number of your comments will rather
20 specifically focus not just on LMI
21 communities, but on minority communities and
22 that sort of thing.

1 community reinvestment act knows that defiance
2 in regards to race was not the fault of those
3 folks who were advocating for a CRA. It was
4 the banking community that wanted to keep it
5 out.

6 That being said, we know to the
7 extent that we find low-income, high
8 unemployment, and all the other indicators,
9 we are going to find people of color.

10 Therefore, when we look at the demographics
11 in terms of the growth in this country, the
12 future labor force, these are the issues that
13 we are facing.

14 The future of this country is
15 going to depend upon the growth in Hispanic,
16 Southeast Asian and African American
17 communities. White population is decreasing
18 and we all know this. Who is going to support
19 social security? Who are going to fill those
20 jobs out there that are necessary? We know that
21 they can only be filled from those populations.
22 Those populations are suffering from higher

1 dropout rates, low education, lack of access to
2 capital, and what have you.

3 So it would seem to me as a
4 priority looking at the scarce resources that
5 we are addressing that we must stay
6 concentrated and we must stay focused. And if
7 that focus is on low- and moderate-income
8 communities at this point in time and if that
9 is the back door that I get into those
10 populations, then so be it, because I don't
11 think that I am going to be able to go to
12 college and be able to get them to open this
13 up on the basis of race.

14 So, the way I look at this, yes,
15 there will be some tension if we try to move
16 the CRA beyond targeted low- and moderate-
17 income communities.

18 MR. BARRAGAN: The level I would
19 trade would be for LMI. If we could actually
20 determine what businesses, what communities
21 are receiving loans, and that became a
22 standard, the fact is what I said, our

1 workforce is a very diverse workforce.

2 Many of the businesses that I work
3 with, I believe in because they are LMI. I
4 believe in their business. I do find out
5 afterwards that the majority of the people
6 that they are hiring are LMI and at the end of
7 the day, it is about jobs.

8 MS. PRINSTER: I think when it
9 comes to small business lending there does
10 need to be a recognition that small businesses
11 are not necessarily place-based in terms of
12 the LMI characteristics. I think as Roberto
13 was talking we also look at whoever is lacking
14 access to capital and we find out later what
15 their profile looks like.

16 And there is no question that low-
17 income and moderate-income neighborhoods and
18 communities need to have viable small
19 businesses. But when it relates to the LMI
20 individuals who are business owners, they
21 don't necessarily. The best place for their
22 business is not necessarily in that community

1 or that neighborhood.

2 So to the extent that you want to
3 be able to build wealth among those
4 individuals, they have to go where the
5 business concept is going to be most viable.

6 On the other hand, it goes the
7 other way, that maybe a middle-income or even
8 a higher-income person who might be starting
9 a business that would be hiring individuals
10 from those populations, they themselves would
11 not necessarily be LMI nor would their
12 business be of a certain size that would qualify
13 for CRA. And yet it would have a large impact
14 on the community.

15 So that is why I feel like the
16 small business is really a little bit
17 different, needs to be looked at differently
18 in terms of the oversight and the incentives
19 to be able to see how it impacts the
20 community.

21 MS. LING: I am not prepared to
22 represent the Low Income Housing Institute's

1 point of view on this matter. But personally,
2 I feel that this distraction between low-
3 income community and community covers is a
4 false one.

5 And I would tend to agree with Mr.
6 Williams' point of view. Let's focus on
7 low- and moderate-income community and address
8 the social equity issues that these
9 communities are seeking to redress at this
10 time.

11 MS. VISSA: I agree with all of my
12 colleagues here on the panel that there must
13 be a focus on the LMI communities but I think
14 that we will be doing ourselves a great
15 disservice if we are race neutral. We see
16 that the research is startling that homeowners
17 with a 720 FICA score and above were still
18 disproportionately sold high-cost predatory
19 loans within the African American and Latino
20 communities. And if we don't take that into
21 account when we are talking about CRA, I think
22 we will just end up in the same place once

1 again.

2 MR. FISHER: Yes, I would agree
3 with what my colleagues here say. I think it
4 has to be mix of both of these things. It is
5 clear that there is color discrimination in
6 all the studies that we have done. The recent
7 study we did looking at those loan
8 modification and mortgage lending, areas where
9 people of color lived were disadvantage.

10 In a study we did a few years ago,
11 middle-income African Americans had a harder
12 time getting a mortgage loan than low-income
13 Anglos.

14 So I think we need to look at
15 those kinds of things. I think we need more
16 data around breaking out in terms of,
17 particularly, Asian Americans, API. But I
18 think this has to be looked at. Otherwise, we
19 don't get the whole picture.

20 MR. WALSH: Thank you. Do others
21 have follow-up questions? We have a little
22 more time.

1 MS. BRAUNSTEIN: Okay, I will ask
2 one. We had some discussion about this
3 earlier today and I wanted to get an opinion
4 from people on this panel.

5 The needs assessment that is done
6 as part of CRA requirements. Currently
7 responsibility is on the banks to do that
8 And there has been a lot of discussion
9 about this at previous hearings and some
10 have said that they think that the regulators
11 should be more actively participating
12 and doing needs assessments, if not
13 doing it all together. And we had some
14 discussion about this on one of the panels.
15 It was kind of split. Some of it was, yes,
16 the regulators have more data, they would be
17 able to do it better. But then there were
18 some concerns that might interfere with
19 whatever conversations currently go on between
20 the banks and the community groups, that we
21 kind of let them off the hook.

22 I was just wondering what is this

1 panel's take as community folks on this whole
2 question of who should be doing the needs
3 assessments.

4 MR. WILLIAMS: I feel strongly
5 that if the banks
6 don't know their communities, they should be
7 punished in terms of their rating. I don't
8 know how you get around this but performance
9 context is a place-based and even region-based
10 kind of things.

11 One of the issues that we have is
12 that we have a lot of banks that are statewide
13 and even throughout the United States and have
14 a tendency to design products that fit in a
15 national or statewide platform when in a state
16 like California, the difference between
17 Imperial Valley, the difference between Santa
18 Cruz, the difference between Fresno and
19 Sacramento are like four different states. We
20 could further segment that down into even more
21 than that.

22 To an extent with those people on

1 the ground and in those communities, they have
2 to know their communities. At one time, and
3 I know we always talk about going back to old
4 fashioned banking, bankers knew about
5 transportation issues. It is not just about
6 low-income housing. It is not just about
7 whether it is small business lending. We know
8 the relationship between poor transportation,
9 poor health within our communities, and having
10 negative impacts within our communities that
11 bankers are trying to address with the CRA.

12 If the people on the ground and in
13 these institutions do not understand the
14 complexities and the needs of their community,
15 again, I say they should be punished.

16 Now to the extent that the Federal
17 Reserve were to go out and to provide data,
18 that is almost like telling me as a lender that
19 a borrower has gone out and hired a consultant
20 to do his or her business plan, and then I am
21 going to make a loan to that borrower who
22 still may not necessarily understand that

1 business plan. It is nice and fancy
2 because they have got a consultant who is
3 going to be able to put together some great
4 data.

5 So I tend to look at this as being
6 a primary responsibility of financial
7 institutions to understand and know the
8 performance, the context of their community
9 and how they should be performing within that
10 community, within the needs that they have.

11 MR. BARRAGAN: I think that the
12 banks should continue doing the assessments
13 but I think the assessment should be evaluated
14 and judged adequate by the regulators, not
15 simply accepted as part of a plan or a
16 performance. And in fact, if the system
17 itself is flawed that we should inform the
18 regulators as to the bank's CRA performance.

19 Both will be part of the process
20 and banks should know what the community looks
21 like but because of what they say, it should
22 not be accepted as fact.

1 MR. FISHER: Go ahead.

2 MS. PRINSTER: Okay. I guess I
3 would agree that the banks should have the
4 primary responsibility for this because they
5 are and should be closest to the community and
6 what the needs are. I think that having
7 access to data is one thing. Interpreting the
8 data is another thing. And interpreting it in
9 the light of non-quantifiable factors is also
10 something that can only be done if you live in
11 the community.

12 So just because there is data
13 doesn't mean that the interpretation of the
14 data is going to be the same in every
15 community. And so I think that is why it is
16 important to have the banks do that.

17 Having access to the data that
18 maybe the regulators would have is really
19 critical. And if there is more capability on
20 the part of the regulators to provide the
21 data, then great. But I do think that it
22 should be the responsibility of those who are

1 closest to the community, which would be the
2 banks.

3 MS. LING: The Low Income Housing
4 Institute recommended that the individual bank
5 performance assessment should be open to
6 community input. I think that is where the
7 regulator's participation and needs assessment
8 could happen.

9 Because through a community input
10 process, you can determine whether a
11 community's needs are being addressed and,
12 through an appeal process, to put in
13 conditions that would include the bank
14 improving those areas where the community
15 needs are still not being met.

16 MR. FISHER: I think we, from my
17 point of view, need a sort of check and
18 balance. I mean, our goal at CRC is not to
19 have great CRA programs at the banks but to
20 have the banks internalize those programs, see
21 them as good business and move forward with
22 them.

1 So I think the critical thing is
2 for the bank to really understand and take it
3 on. But I think if we have learned anything
4 in the last five or ten years, it is that once
5 in a while banks game the system and may not
6 tell us the whole truth.

7 So I think there needs to be a
8 rule for the regulators to really oversee
9 that, maybe using the community to be sure
10 that what is happening is real and is really
11 benefiting the community.

12 I mean here in California, we have
13 all these banks now that come in from out of
14 state. They see our big state. They see an
15 ability to make lots of money and they think
16 it looks like Minnesota or New York or North
17 Carolina or something, you know. And they
18 don't really understand what goes on here, the
19 diversity, the size of it. Maybe we have
20 eight regions here. The state is the size of
21 most of the East Coast. They think it is like
22 Rhode Island or something. You know, it is a

1 state.

2 So I think without there being
3 some pressure from other places, there can't
4 be a good assessment.

5 MS. VISSA: I would just add to
6 that that regardless of who is doing the needs
7 assessment, it is critical that the community
8 input be number one, either on the front end
9 where they are providing input for the needs
10 assessment or on the back end where they are
11 able to provide oversight and either agree or
12 amend the assessment once it is created.

13 MR. WALSH: We are a few minutes
14 ahead. Any final?

15 Okay, we are going to be moving on
16 to the very large round of commenters.

17 A comment was made by Mr. Fisher
18 earlier about keeping the record open. There
19 is an opportunity for public comment to be
20 added to the record through the end of the
21 month. So, we do welcome additional comments.

22 I would like to thank this panel

1 for their contribution. We will adjourn for
2 just over 15 minutes. We ask the speakers in
3 this final session to be in place by five
4 minutes to three, so that we can get started.
5 We have quite a large number to get through.

6 Thank you.

7 (Whereupon, the foregoing
8 proceeding went off the record at
9 2:42 p.m. and went back on the
10 record at 3:00 p.m.)

11 MR. WALSH: We will begin our last
12 session this afternoon, which includes
13 individuals who have asked to testify and will
14 each have three minutes to speak. As in our
15 earlier session, our timekeeper will be busy
16 holding up the one minute warning sign and
17 then in the extreme case, ringing his bell.
18 We will need to stick closely to time because
19 there are so many witnesses who have asked to
20 be heard. And as I mentioned earlier, there
21 is also a public record that will remain open
22 until the end of the month of August, so that

1 additional comments can be provided for the
2 record.

3 But as for now, we would like to
4 begin with our list of individual
5 presentations. And we have to lead off this
6 afternoon Congresswoman Maxine Waters of the
7 35th District of California, who will offer
8 some remarks on CRA.

9 REP. MAXINE WATERS: Thank you.
10 Thank you very much and good afternoon to
11 everyone.

12 MR. WALSH: Good afternoon.

13 REP. MAXINE WATERS: I would like
14 to thank all of the representatives from the
15 various regulatory agencies, Office of the
16 Comptroller of the Currency, Office of Thrift
17 Supervision, Board of Governors of the Federal
18 Reserve System, Federal Deposit Insurance
19 Corporation. I thank you for bringing us
20 together this afternoon.

21 Let me begin by saying to all of
22 you that we appreciate that. We don't see all

1 of you all together too often. Thank you very
2 much.

3 As Chairwoman of the House
4 Subcommittee on Housing and Community
5 Opportunity, I consider the Community
6 Reinvestment Act, CRA, to be one of the most
7 significant pieces of legislation to help
8 lower income in minority communities since its
9 enactment in 1977. The CRA was necessary
10 because financial institutions were
11 discriminating against lower income in
12 minority communities in a practice that we
13 once called redlining. I remember too well
14 the days of redlining.

15 When I entered the California
16 Assembly in 1976, prior to passage of CRA,
17 whole communities were excluded from mortgage
18 opportunities simply because financial
19 institutions chose not to lend to them. The
20 CRA was an important step to correct this
21 problem and did so by creating an explicit
22 promise between federally insured banks and

1 the government. If banks met the credit needs
2 of their entire community, including minority
3 and lower income borrowers, they would be
4 permitted to expand and grow their business.

5 Since the passage of CRA, small
6 business lending in low- and moderate-income
7 tracks did increase. They increased from 33
8 billion in 1976 to 60 billion in 2008.

9 Furthermore, community development lending
10 grew from 18 billion in 1996 to 73 billion in
11 2008. CRA has played a vital role in
12 increasing homeownership, decent affordable
13 rental housing, small business ownership, and
14 community development investments which would
15 not have been possible otherwise.

16 Yet, despite this data, critics
17 have blamed CRA as one of the factors that led
18 to the financial crisis. And I continue to hear
19 that with the tightening of credit, banks are
20 making fewer and fewer to loans to small

1 minority and women-owned businesses.

2 The facts demonstrate that CRA is
3 not to blame and these underserved populations
4 should not bear the brunt of such unfounded
5 claims.

6 According to a recent study, based
7 on Home Mortgage Disclosure Act (HMDA)
8 data, CRA banks are significantly less likely
9 than other lenders to make high-cost loans and
10 the average APR on high-cost loans originated
11 by CRA banks was appreciably lower than those
12 by other lenders.

13 Furthermore, it must also be noted
14 that the larger financial institutions that
15 are refusing to lend to under-served
16 populations are the same big banks that
17 received billions in top payouts last year.
18 They are taking taxpayer dollars but failing
19 to serve the communities that need it most.

20 If we are to recover as a nation,
21 then we must do it together by making sure
22 that our under-served communities are provided

1 the same access to credit and lending
2 opportunities as our most-served communities.
3 That is why I plan on introducing legislation
4 in the next Congress to help strengthen
5 enforcement of CRA and improve upon the role
6 of CRA in increasing lending to small
7 businesses and greater community development
8 opportunities, while ensuring that larger
9 banks remain accountable to under-served
10 communities.

11 So I look forward to the
12 significant amount of data that will result
13 from this series of joint hearings on CRA and
14 I hope that the Congress and federal
15 regulators will continue to work together to
16 address this very important issue, which will
17 help revitalize and restore our nation's
18 economy at all levels.

19 And I thank you for the
20 opportunity to speak today. And I would just
21 like in closing to direct you to a recent study
22 that was made available to us today. I

1 think the study was done by the Center for
2 Responsible Lending. And the title of the
3 article that appears today that describes the
4 study is this: Latinos, African Americans
5 More than Half of All of California's
6 Foreclosures. I would like you to read that.
7 Thank you very much.

8 Do you have any questions?

9 MR. WALSH: Thank you.

10 REP. MAXINE WATERS: Thank you.

11 MR. WALSH: We would not presume.

12 (Applause.)

13 MR. WALSH: Thank you,
14 Congresswoman Waters. Let me call Claudia
15 Viek to the podium.

16 MS. VIEK: Hi. my name is Claudia
17 Viek and I am the director of CAMEO, the
18 California Association for Microenterprise
19 Opportunity. That is a very long name but I
20 am very glad to be following Ms. Waters.
21 Thank you for the opener.

22 We are a statewide network of 88

1 nonprofits that provide business development
2 services, also known as technical assistance,
3 and lending to 25,000 businesses last year.
4 It is especially appropriate that this hearing
5 is being held at the Federal Reserve because
6 it is the regulator that could change the
7 dynamics of job creation through CRA. One of
8 the primary mandates of the Federal Reserve is
9 to fight high unemployment rates. And the
10 best way to fulfill this mandate is what I am
11 about to propose regarding support for small
12 businesses.

13 We need to recognize that our
14 society has undergone a seismic shift with our
15 financial institutions that are leaving a
16 permanent legacy. The regulators need to
17 change the way you look at CRA and reward the
18 type of investments that really create jobs.
19 The nonprofit and non-depository CDFIs that we
20 heard from in the previous panel are now
21 serving the niche of small and microbusiness
22 loans under \$100,000 and their customers

1 include credit-worthy businesses that have
2 lost their bank lines of credit or home
3 equity, struggling main street businesses who
4 have lost customers and need this technical
5 assistance, and the unemployed seeking to
6 create their own jobs by starting a
7 microbusiness.

8 Experts contend that 70 percent of
9 new job creation will come from the very small
10 microbusiness sector and the Kauffman
11 Foundation just published its report that
12 virtually all new job creation derives from
13 startup firms and that mature businesses
14 actually shed jobs over time.

15 So what can the regulators do to
16 support this reality and strengthen our
17 economy with new job creation?

18 Number one, treat grants for
19 business development services as risk
20 mitigation for lending. It is an essential
21 component for moving capital to qualified
22 small businesses and ensuring successful

1 repayment as well.

2 Grants for training and business
3 development services should get the same CRA
4 credit as capital investments.

5 Number two, nonprofit lenders need
6 cheap, patient capital to lend to small
7 businesses in the economically distressed
8 communities they serve. CRA should encourage
9 bank investment in nonprofit lenders serving
10 economically distressed communities and give
11 a higher CRA value to these investments.

12 We need to remember that not all
13 CRA investments are equal. EQ2s that are very
14 low interest are especially suitable capital
15 products for distressed communities. And
16 right now, these EQ2s receive the same CRA
17 credit as other bank investments that are
18 collateralized and more profitable for the
19 banks to make. So EQ2s need to be given a
20 higher value by CRA examiners.

21 The CRA that originally allowed
22 banks to make grants and investments in

1 microenterprise development plus year ago --
2 That is my end warning. Okay.

3 As I say, I know this because I
4 founded one of the first in California, the
5 Renaissance Entrepreneurship Center in San
6 Francisco in partnership with Bank of America.
7 Now these nonprofit programs and lenders are
8 the economic anchors in our communities. So
9 I urge federal reserve, OCC, OTS, FDIC to
10 recast CRA so that it will serve to increase
11 investment in this infrastructure and the
12 result will be new businesses, new jobs, new
13 taxes and more entrepreneurial energy, which
14 is good.

15 Thanks.

16 MR. WALSH: Thank you. And we are
17 being a little bloody-minded with the bell
18 ringing but we do have large numbers.

19 Nancy Andrews.

20 MS. ANDREWS: Good afternoon. My
21 name is Nancy Andrews and I am the President
22 and CEO of the Low Income Investment Fund,

1 which is a leading national community
2 development financial institution that is
3 based here in California but we work
4 nationwide. We are 25 years old and over
5 those 25 years, we have made just about a
6 billion dollars of investments in distressed
7 neighborhoods. And projects that we have
8 supported have created about 72,000 jobs, have
9 leveraged 5.4 billion dollars into these
10 neighborhoods and we believe they have created
11 about 17 billion dollars of family and
12 societal benefits.

13 And I don't think I am
14 exaggerating to say that pretty much
15 everything that we do we feel we owe to the
16 existence of the Community Reinvestment Act.

17 I am going to make three points in
18 my testimony today. First, we believe that
19 community development financial institutions
20 like ours should be an eligible CRA activity,
21 even if the CDFI is not located in a bank's
22 assessment district. We think flexibility

1 around the assessment districts and assessment
2 areas would be very helpful. We have seen
3 over the last 30 years the important role that
4 CDFIs and other community development actors
5 have played in creating economic vitality
6 during downturns. We consider ourselves first
7 responders in the neighborhoods that we work
8 in during the current crisis and we think that
9 one way of using this resource and asset that
10 has been created over the last 40 years is
11 through the assessment area of flexibility
12 that I just described.

13 My second point is that the field
14 of community development has evolved greatly
15 over the last 30 years but the way that we
16 give credit, the way that we count really has
17 not. And so high impact community projects
18 like the types that we finance with health
19 centers, childcare projects, affordable rental
20 housing, schools, these are very, very hard to
21 do with high social impact and high social
22 contribution but they don't have high numbers.

1 And so to remedy this or to
2 encourage this kind of investment, we would
3 encourage the creation of a new community
4 development test that would capture these
5 kinds of high impact investments.

6 The third point that I will make
7 is that green projects, green investing is not
8 necessarily recognized or rewarded well
9 through the CRA counting regime and we would
10 recommend that bonus points or some kind of
11 incentive measure be introduced for projects
12 that are built according to green standards.
13 We think that this will go a long way to
14 ensuring that the green revolution doesn't
15 skip over low-income communities all together.

16 And we think this is very
17 important because while these communities
18 contain about 20 percent of the nation's
19 population, their residences and commercial
20 buildings contribute about 40 percent of our
21 greenhouse gases. So we would urge you to
22 consider that.

1 people with mental health or developmental
2 disabilities. These are the most in need of
3 job creation, affordable housing, in the
4 vibrant communities that CRA seeks to create
5 and promote.

6 So today I am going to speak to a
7 specific issue which is part of what you
8 requested comment on but I haven't heard
9 really addressed today, which is the issue of
10 fair lending and how that plays into the CRA
11 examination and how it should be strengthened.

12 So since 2003, we have represented
13 dozens of families, almost all of whom are
14 limited English proficient immigrants who have
15 been preyed upon by unscrupulous mortgage
16 brokers and lenders. These families were
17 induced to take out loans that have caused
18 them to lose hundreds of thousands of dollars
19 in equity, their credit worthiness, and in
20 many cases, even the home.

21 All too often it seems clear that
22 these homeowners were targeted based on their

1 race or their national origin for these
2 inferior loans. I don't have to tell you how
3 disruptive this has been for not only these
4 families but our communities and the entire
5 nation.

6 So in this context, with an eye to
7 preventing another catastrophe along these
8 lines, it is critical for the regulators to
9 conduct more rigorous examinations regarding
10 fair lending practices, and to act upon
11 evidence and discrimination.

12 As you know, CRA provides that
13 bank CRA ratings can be downgraded if
14 discrimination or illegal lending were
15 widespread and the lender did not take action
16 to end the practices. There is, however, not
17 much evidence that the fair lending review is
18 conducted concurrently as CRA exams are
19 rigorously testing for abusive and
20 discriminatory lending. In fact, it seems in
21 some instances the contrary is taking place.
22 As in most cases, even the largest banks in

1 the country, the fair lending section of the
2 CRA examination is a very cursory section of
3 the exam, sometimes as little as one sentence
4 stating that the regulatory agency tested for
5 evidence of illegal discrimination and that
6 there was no such lending found.

7 With an apparently cursory, non-
8 transparent process, it is hard for the public
9 to have confidence that the regulatory agency
10 performed a detailed anti-discrimination
11 analysis and also to have confidence that the
12 bank is really adhering to fair lending
13 standards.

14 There are some positive counter
15 examples. For instance, there was a Federal
16 Reserve bank review in 1996 of Signet Bank and
17 there they conducted a match file review of
18 300 actual loan applications and they used a
19 regression analysis to try to root out whether
20 race was a factor in rejection. So that was
21 sort of a redlining case but it could also be
22 used for anti-redlining, the same type of

1 analysis.

2 It considered variables not
3 available in the HMDA data, such as credit
4 histories, stability of employment, and the
5 debt obligations of the applicant. That kind
6 of rigorous review is what is required if the
7 regulators are serious about both
8 substantively rooting out lending
9 discrimination and generating public
10 confidence that they are taking this issue
11 seriously and the enhancements that we talked
12 about a couple of weeks ago up in San
13 Francisco that will help in this regard
14 because some of these factors will now be in
15 under Dodd-Frank and will be considered for
16 addition.

17 So just to say in conclusion,
18 there needs to be much more rigorous review of
19 this issue. We were in 2008 for the Bank of
20 America acquisition of Countrywide and as you
21 may recall, there was much evidence of
22 problematic lending practices among

1 Countrywide. But when the evidence was put
2 forth by commenters, basically what the Fed
3 said was HMDA data doesn't allow us to tell if
4 these are the actual fair lending violations,
5 which is a interesting conclusion because the
6 New York Attorney General had just sued
7 Countrywide and got a very positive settlement
8 two years prior.

9 So we don't know what would have
10 happened if maybe a more rigorous review had
11 been done of Countrywide's fair lending
12 practices. Some more accountability would have
13 been had.

14 So I encourage you to look at that
15 more carefully and thank you for your time.

16 MR. WALSH: Thank you. Alan
17 Jennings.

18 MR. JENNINGS: Thanks for the
19 opportunity to travel 3,000 miles to be part
20 of this.

21 MR. WALSH: We feel the same way.

22 MR. JENNINGS: You have my

1 comments so, in the interest of time, I will
2 just offer a summary of key points. First, I
3 will make the most important point.

4 In an era when capital is
5 increasingly a consolidated centralized and
6 global commodity with decisions more
7 standardized as well as distant from the
8 community where it is needed, CRA is the
9 antidote, localizing credit and fueling our
10 communities' economic vitality and therefore,
11 its quality of life.

12 Our agency recently started a peer
13 review process where all small business loans
14 that are being rejected are being renewed by
15 each other's banks in order to move deals
16 around and hopefully increasing the likelihood
17 of small business lending. It never would
18 have happened without the context of the
19 Community Reinvestment Act.

20 Second, we resent the suggestion
21 that CRA and safety and soundness are mutually
22 exclusive. The frustration of community

1 development professionals is that community
2 development lending is safe and sound and none
3 of us intend it any other way. An effective
4 CRA would be a hedge against the tight credit
5 market for small businesses, if the regulators
6 took CRA as seriously as they take some of the
7 other regulatory enforcement.

8 Third, regulators need to be more
9 consistent in their examinations, both among
10 the agencies, as well as within the agency.

11 I gave you an example of confusion about
12 investments in our CDFI.

13 I want make a fourth point. Size
14 does matter. The community banks, despite
15 their claims to the contrary really don't have
16 a good sophisticated handle or the resources
17 on how to do CRA. The bigger the bank, the
18 greater the capacity but the harder it is to
19 jam our square pegs in their round holes. It
20 is the mid-sized banks that are the easiest to
21 work with and they are vanishing.

22 Fifth, there are many ways in

1 which public disclosure and public
2 participation need to be improved. Public
3 comment periods are not publicized. In our
4 region, the only branch in our moderate-income
5 borough is closed and nobody knew until they
6 informed their customers, long after the
7 regulator approved the closing. The low-
8 income elderly folks who don't drive never
9 knew what hit them.

10 Large bank mergers occur,
11 affecting hundreds of communities and hundreds
12 of thousands of people. No public hearings
13 are held. Not only should hearings be held
14 but large mergers should only be approved when
15 the surviving bank offers a community
16 reinvestment plan that includes public input.

17 The ratings are not very well
18 publicized. People don't even know they can
19 find out how well a bank is performing. A
20 bank should be examined with public input.

21 Seventh, branches remain the most
22 visible icon of banking for everything from

1 deposits to mortgages to small business
2 lending. It amazes me that banks are
3 receiving satisfactory CRA ratings, despite
4 having not a single branch in an LMI census
5 track and in some cases completely avoiding
6 the city right in the middle of their
7 assessment area.

8 Seventh, since the lifting of
9 glass steeple's firewall, the use of branches
10 to determine assessment areas is obsolete.

11 Finally, I agree with NCRC that as
12 long as class and color are synonymous, we
13 need to do a better job of collecting data and
14 applying CRA to color as much as we do to
15 class.

16 And I have run out of time.
17 Thanks for the opportunity.

18 MR. WALSH: Thank you. Ali Tarzi.

19 MR. TARZI: Hi. Good afternoon.

20 I am here representing Community Housing
21 Works.

22 Community Housing Works is a 28-

1 year-old nonprofit founded to create housing
2 and housing options to help people in
3 neighborhoods move up in the world. We are
4 also a proud member of the California
5 Reinvestment Coalition, the California Rural
6 Housing Coalition and the National Council of
7 La Raza.

8 We are certain that CRA and the
9 1995 revisions have created the conditions for
10 banks to extend themselves and finance
11 courageous projects for hard to serve people
12 in communities that were previously excluded.
13 Our daily magic for our residents would not be
14 possible without CRA. However, the dramatic
15 changes in the banking industry over the last
16 15 to 30 years have threatened to leave behind
17 the critically important regulatory incentive
18 system for CRA. These failed incentives have
19 had recent and negative impacts on the San
20 Diego rural and urban communities we serve.

21 Because of the way in which
22 assessment areas are designated, we have been

1 told that San Diego as an entire market is not
2 currently a CRA priority for a number of major
3 banks. We are the second largest metropolitan
4 area in California and among the largest metro
5 areas in the country. By any common sense
6 measure, our under-served communities' credit
7 needs have not been adequately met.

8 The current CRA system provides
9 the strongest incentives for lending and
10 investment in San Diego only to those banks
11 that have active merger and acquisition
12 strategies.

13 There are other impacts felt in
14 San Diego County that are national in scope as
15 well. They have been well articulated by
16 other commenters such as Liskin Enterprise.
17 On the threat side, they include they include
18 the failure of the CRA system to cover a large
19 part of the financial service industry and of
20 the tight geographical link between area
21 deposits and the area of financial services.

22 We support the following

1 priorities for modernizing CRA to help it
2 achieve the original goals of the statute in
3 the current financial institution environment.

4 One, expand the range of
5 institutions that CRA covers. Two, refine
6 assessment areas of responsibility. Three,
7 formally recognize a fourth activity area,
8 community development, that will provide a path
9 to provide a qualitative review of community
10 development activities.

11 Also, assess services with rigor
12 and attention more similar to a lending and
13 investment test; increase interventions to
14 assure small business lending needs are met;
15 and finally, strengthen performance incentives
16 and enforcement tools.

17 We are delighted that the agencies
18 are asking these questions about improving the
19 regulatory implementation of CRA and we look
20 forward to being a continuing part of the
21 policy discussion. So thank you very much.

22 MR. WALSH: Thank you. Linda

1 Mandolini.

2 MS. MANDOLINI: Thank you for the
3 opportunity to testify today. My name is
4 Linda Mandolini. I am the executive director
5 of Eden Housing. Eden is one of California's
6 largest and oldest nonprofit affordable
7 housing developers.

8 I am here today in my capacity as
9 a Board Member of the California Housing
10 Consortium. CHC is an advocacy group that
11 advocates statewide for policy changes and
12 good affordable housing. Collectively, at
13 CHC, we represent the entire state both for-
14 and nonprofit developers, our investors, and
15 lenders, and together we have created tens of
16 thousands of units of affordable housing in
17 California.

18 We believe that CRA is one of the
19 principle reasons why all of us have been
20 successful in creating those units and we
21 would encourage you to look at two issues in
22 particular in your thoughts on CRA.

1 First would be the community
2 development test. I agree with Nancy Andrews'
3 testimony and the testimony submitted by
4 Enterprise and others that you should have a
5 community development test that takes into
6 consideration a broader array of activities in
7 community development, including investment in
8 affordable housing, investment in CDFIs and
9 other community institutions.

10 Secondly and most importantly is
11 the issue of assessment areas. For CHC's
12 members, the issue of assessment areas is
13 particularly acute. Right now Eden and our
14 colleagues can get investment in tax credit
15 projects in coastal areas and major cities.
16 But if I were to ask an investor to go with me
17 to a place like Lodi in the Central Valley, we
18 would be told that they can't do that because
19 they don't get CRA credit.

20 We encourage you strongly to
21 reconsider how the assessment areas work, both
22 in terms of what banks get credit for, and how

1 it fits the kinds of institutions that we work
2 with, at least. We did longer testimony,
3 and you have heard a lot today so I don't need
4 to give you a lot more detail.

5 But I did want to answer your one
6 question about unintended consequences. We
7 have thought a lot about what would happen if
8 banks started lending and investing more in
9 rural areas. I doubt very much that an entity
10 like Eden would not get an investment in Palo
11 Alto, even if that same bank were to go with
12 us to Lodi. So I would encourage you to look
13 hard at the assessment area question.

14 Thank you very much.

15 MR. WALSH: Thank you. Jeff
16 Schaefer.

17 MR. SCHAEFER: Good afternoon. I
18 am Jeff Schaefer, Vice President at Enterprise
19 Community Partner representing the Southern
20 California Association of Nonprofit Housing.

21 SCANPH creates affordable housing
22 opportunities for low-income people by

1 expanding the knowledge, capacity and
2 influence of the nonprofit housing sector.
3 The 350 members include nonprofit
4 organizations, public agencies, lenders and
5 investors, of which approximately one-third
6 are community development corporations.

7 Although SCANPH members have
8 produced more than 100,000 apartments,
9 condominiums, and houses throughout the
10 region, the need for affordable rental housing
11 in Southern California remains acute.

12 SCANPH applauds your leadership
13 and holding these public hearings to examine
14 the current state of CRA's regulatory regime.
15 While I am not a banker or an expert on bank
16 regulation, I have seen first-hand how
17 important CRA has been in spurring public-
18 private partnerships that finance affordable
19 housing. Although we have seen some good
20 local examples of community investment such as
21 with the new generation fund, more generally
22 in recent years, we have seen declines in

1 financing for affordable housing and community
2 development, both because of the financial
3 crisis and the recession and because the CRA
4 doesn't have the force that it once did.

5 Currently, evaluation of bank
6 activity supporting community development is
7 scattered amongst the lending service and
8 investment tests, depending on the form the
9 investment takes.

10 The multi-family housing that
11 SCANPH members develop takes much more time
12 and attention to finance than conventional
13 single-family mortgages, yet if CRA
14 examinations are only a matter of filling in
15 tables with loan volumes, there is no
16 distinction made.

17 The time and complexity required
18 by community development projects needs to be
19 recognized by a separate test that looks at
20 community development as an integrated whole.
21 This by current regulation should be
22 augmented with the community development test

1 that replaces the investment test. Lending
2 services and investment in affordable housing,
3 economic development projects, community
4 facilities like childcare and charter schools,
5 community loan funds, microfinance loan funds
6 and other community development activities in
7 low- and moderate-income communities should
8 qualify for this test.

9 Equity investment in community
10 development financial institutions and other
11 investments in building the capacity of
12 community developers should qualify as well.

13 Furthermore, the agency should
14 consider all of the lead activities for
15 examination under CRA. Many financial
16 corporations have organized their corporate
17 structure in a manner that puts normal banking
18 activities under affiliates where they have
19 not been overseen or examined in the past.
20 Affiliates and subsidiaries should be
21 regulated and examined along with the banks.

22 Effective community development

1 starts with an assessment of the community's
2 needs. To make the community development test
3 effective a bank's activity should be compared
4 against an objective analysis of what the
5 market needs. Is there a need for rental
6 housing, affordable home ownership, community
7 facilities? Regulatory agencies should work
8 together on an interagency analysis for each
9 major metro area that replaces the assessments
10 of community needs done by individual agencies
11 as part of CRA exams at various financial
12 institutions.

13 Thank you for your time and
14 attention.

15 MR. WALSH: Thank you. Cecilia
16 Estolano.

17 MS. BIBBINS: Hello and thank you
18 for your time. My name is Shamar Bibbins and
19 I am here on behalf of Green for All. Green
20 for All is a national organization that works
21 to build an inclusive economy. We love to
22 create green jobs and green job opportunities

1 and economic development specifically in
2 communities of color and low-income
3 communities. We believe that we should
4 rethink economic development to include clean
5 energy lending opportunities.

6 It is our proposal that CRA rules
7 are strengthened to encourage depository
8 institutions to support activities that have
9 a triple bottom line result. Triple bottom
10 line meaning activities that support not only
11 the environment, but promote equity as well as
12 the economy.

13 So under this proposal, triple
14 bottom line activities having positive impact
15 on the economy, equity and the environment
16 would receive favorable consideration under
17 CRA performance assessments. The proposal
18 would supplement existing CRA consideration
19 for community development activities. It
20 would expand the type of community development
21 activities which institutions may receive CRA
22 credit for.

1 Green for All works in about 12 to
2 18 different cities around the country. We
3 submitted testimony and a proposal at the
4 hearing in June for our work that we are
5 doing with Green Jobs New York. Here on the
6 West Coast we are right now working in
7 Seattle, in Portland, as well as in Santa
8 Clara County here in California to bring
9 energy efficiency retrofit organization
10 programs, both residential and commercial, to
11 city-wide scale.

12 So for example in the work that we
13 are doing in Seattle, we are working with
14 Seattle's Community Power Works program, which
15 is an initiative, a million dollar
16 neighborhood initiative, to bring community
17 retrofit programs up to scale.

18 Within this project that we are
19 working with, we just created high-low
20 standards which the City Council of Seattle
21 just signed onto and basically, it sets
22 standards for this type of program to promote

1 the hiring of minority and women-owned
2 contractors for the Energy Retrofit Programs.
3 In addition, it also creates opportunities for
4 people with traditional barriers of employment
5 to work on our residential programs.

6 So we feel that programs such as
7 these that we are working on not only in
8 Seattle and Portland but across the country
9 could also receive CRA credit as well, in
10 terms of economic development.

11 And while this is a small sector
12 of the environmental field, we also believe
13 that credit could be extended not only to
14 energy efficiency projects but across
15 different sectors, including urban
16 agriculture, including restoration and any
17 other types of environmental programs that
18 promote a clean energy economy and also fuel
19 economic development.

20 So I thank you for your time.

21 MR. WALSH: Thank you. Steve
22 Nissen.

1 MR. NISSEN: Good afternoon. My
2 name is Steve Nissen. I am Vice President for
3 legal and government affairs for NBC Universal
4 but I appear here today in my volunteer
5 capacity as Co-chair of the Legal Services
6 Trust Fund Commission of the State Bar of
7 California. I also bring a personal
8 perspective of having worked with legal aid
9 organizations serving the poor for over a
10 quarter of a century.

11 The Legal Services Trust Fund
12 Commission administers a program known by its
13 acronym IOLTA, Interest on Lawyers' Trust
14 Accounts. The IOLTA currently funds 96
15 nonprofit legal aid organizations, covering
16 every one of California's 58 counties. It was
17 established by statute in 1981.

18 Simply defined, the IOLTA program
19 works as follows. Interest earned on certain
20 lawyers' trust accounts at depository
21 institutions is sent over to the State Bar on
22 a regular basis. And then in turn, it is

1 distributed to qualified legal services
2 organizations that serve the poor. There are
3 several distinctive features of California's
4 IOLTA statute but the salient ones for
5 purposes of today's hearing are as follows.

6 IOLTA's funds must be distributed
7 through the provision of civil legal services
8 to indigent persons. It is important to note
9 that income eligibility thresholds for legal
10 aid are much lower than CRA thresholds so that
11 virtually all eligible individuals under the
12 IOLTA definition of indigency are also low- or
13 moderate-income under the CRA.

14 Further, the IOLTA statute was
15 amended in 2008 to add what we call a
16 comparability requirement. That is,
17 depository institutions are statutorily
18 required to pay a rate of interest for IOLTA
19 accounts that is no less than the rate paid on
20 comparable non-IOLTA accounts. And because
21 the need for legal aid in our state is great
22 but available resources are not, the Trust

1 Fund Commission has been encouraging
2 institutions to pay higher rates for IOLTA
3 than what is mandated by the comparability
4 law. And that brings us to why we are here
5 today.

6 We asked the federal banking
7 agencies to issue a Q and A in the interagency
8 questions and answers to confirm to depository
9 institutions that they will receive investment
10 credit for IOLTA payouts that exceed the
11 statutory remanded level of interest payments.
12 Simply put, when banking institutions provide
13 more to IOLTA programs than they have to under
14 the law, we ask that you clarify that those
15 institutions receive the same credit as if
16 they had made an outright cash grant to legal
17 aid.

18 In conclusion -- And I might add
19 that that would hold true for service fees, as
20 well, that are waived by financial
21 institutions. They should receive investment
22 credit or alternatively service credit.

1 Now in conclusion. Because IOLTA
2 funds are allocated to every county in the
3 state, relay providers help stabilize
4 communities in every corner of the state. By
5 extension, if our request is granted, it will
6 clarify that CRA credited fund can be put to
7 work in every part of the state, helping Legal
8 Aid preserve affordable housing, protect
9 children from violence, seniors from
10 foreclosures, counsel microbusinesses, and so
11 much more. Thank you.

12 MR. WALSH: Thank you. Joyce
13 Dillard.

14 MS. DILLARD: I am an active
15 citizen. I am not affiliated with anyone and
16 I learn from having to deal with problems,
17 helping people, attending a lot of meetings,
18 and watching every agenda that goes through
19 the City of Los Angeles. And I can say that
20 on a local level, people are cut out.

21 There are a lot of terms that I
22 have heard here that no one would know. I

1 have even asked the question, we have the
2 Community Development Agency here, why is the
3 general fund budget minus where the CRA is
4 plus in the same area. What is it?

5 So you are not widely known. I
6 live in a low- and mod-income area. Things
7 are too controlled by the local governments.
8 We are a Spanish system out here, a lot of
9 power with the mayor, I have this in my
10 testimony, but in essence, it really has to
11 branch out to what is local. Within 500 feet
12 of you is what we get involved with. Local
13 use, land use planning, charter schools which
14 I wrote against because they are public
15 schools. There is a line of banking issues
16 that needs to grow beyond.

17 The State of California is in
18 failure with small business, as are locals.
19 We rely on capital gains that come in
20 California and we need to rely more on service
21 and turn the model around here.

22 After this hearing, I really don't

1 see a bright future for California. Again, I
2 am more LA-oriented but we are the second
3 largest and we are immigrants. So I think you
4 need assessments. I think you need to see
5 local land use planning, some state laws
6 adhered to which isn't being addressed because
7 you are a federal agency.

8 The banks are not known. The
9 CDFI, the term isn't even known. The LA
10 Economic Development Corporation may be known
11 in certain parts of town, not in mine, which
12 is East Side. So it is very limited to a
13 control of a few people.

14 And the banks, I can see their
15 role now and I can see why our areas are
16 valuable because geographically we live in the
17 right area you need for bigger deals, security
18 deals and other deals. And I am sad to say
19 that has got to go. Because we are changing
20 in California. We are changing
21 demographically, culturally. We talk on other
22 sides of town now. We are not isolated like

1 we used to, but parts that were successful
2 aren't and they are contributory to our
3 budgets in California and in the city. And if
4 they don't grow, we don't grow.

5 So it has to be a double-growth,
6 good areas or not in good areas. But the
7 exclusion of the citizen in knowing their
8 value and in inclusion in plans has just got
9 to stop, not only on the federal level but
10 very much on the local level.

11 And you are not even addressing
12 what local government needs to comply with.
13 Right now, we have to go through the mayor's
14 office or the council's office to even get to
15 this point. Most people in low- and moderate-
16 income areas aren't going to do that. They
17 are going to go with the person they know.
18 Who do they know that can get them the phone
19 call in to the banker? It may be an older --
20 Seniors have a lot of contact with networks.
21 Some cultures have that angel network. What you
22 have to fight is underground income and you

1 have to fight money laundering. Because your
2 answer when you cut out the citizen or the
3 would-be citizen is you are going to get the
4 illegal activity that is really hard to
5 control because they don't trust anyone
6 because the procedures haven't been
7 implemented to trust.

8 Thank you.

9 MR. WALSH: Thank you. Brett
10 Palmer.

11 MR. PALMER: Good afternoon. My
12 name is Brett Palmer. I am President of the
13 National Association of Small Business
14 Investment Companies. Small business
15 investment companies, also known SBICs, were
16 created in 1958 by Congress to fill a capital
17 gap that we see on the market to provide
18 financing to small businesses that banks
19 really weren't willing to provide.

20 We provide capital that is too
21 risky for banks to take on generally that is
22 sometimes a little larger than they are used

1 to dealing with or too long term than banks
2 are willing to lend for. We have a patient
3 capital. We provide growth capital to small
4 businesses.

5 We are very concerned about CRA
6 and the role that it plays. Banks are
7 significant investors in our funds. SBICs are
8 private equity funds. They are not banks. We
9 don't compete with banks. We compliment banks
10 and banks invest in us significantly. Some
11 SBICs have as little as zero bank investment,
12 some are 100 percent bank investment. But the
13 ones that have more bank investment than
14 others get CRA credit for the investment test
15 because we provide small business capital.

16 Some banks recently have begun to
17 get concerned about investing in SBICs, not
18 because of the returns that we have had, not
19 because of the results we have had, not
20 because of the jobs that we have created but
21 because of the CRA credit and how much is
22 going to be given. There is a lack of clarity

1 on that, despite the Q and A which
2 specifically references us a number of times.
3 There is some questions about how much credit
4 is going to be given. This goes to the
5 regional comments and the assessment area
6 comments that you heard earlier today from
7 Kerwin Tesdell with the Community Development
8 Venture Capital Association because when you
9 are making an investment in a private equity
10 fund, it is a longer term investment and you
11 don't exactly know where the money is going to
12 go because you don't have the money lined up
13 for that particular deal yet.

14 Well some of these banks are
15 getting less than full credit so, therefore,
16 they have stopped investing in SBICs. Most
17 have not had that problem but some have. So
18 that is a concern for us because we provide a
19 lot of capital to businesses, not just the
20 direct capital invested by the banks but
21 because of the nature of the program which I
22 am not sure many of you know about but as an

1 SBIC, once you are licensed and once you have
2 raised the private capital, you can access
3 leverage from the SBA at a fairly low cost.
4 There is a money multiplier to it.

5 So if banks are not investing in
6 SBICs, it is not just a one dollar that they
7 are not investing and that is being removed
8 from the small business community, it is
9 actually a multiple of that up to three.

10 So that chilling effect is
11 something that we would really like to get
12 taken care of because right now there is about
13 five billion dollars in leverage that is being
14 sought. If private capital can be raised they
15 will go exclusively to domestic small
16 businesses across the country.

17 And largely, it is worth noting
18 that where we invest is different from the
19 rest of the private equity world and the rest
20 of the venture capital world. We are, A, very
21 small, and B, we invest in other places other
22 people don't. Where most of the venture world

1 invests about 80 percent of their investments
2 in the Silicon Valley and New York to Boston
3 corridor, we are the inverse of that. We
4 invest in places like Arizona and Louisiana
5 and the plains and other places, and places
6 that are just passed over that we provide jobs
7 and growth. And so housing and these other
8 issues are critical issues but if you don't
9 have the community development in jobs, you
10 really can't pay for the rest of it and that
11 is where we come in.

12 So we are not talked about a lot.
13 We are not widely known. I would like to take
14 the opportunity to educate any of your staff
15 about any further questions you may have. I
16 know there isn't a lot of time. But we would
17 welcome, as you are reviewing the CRA, if you
18 could provide greater clarity as far as what
19 qualifies for CRA investment credit. If as
20 you are talking about adjusting the assessment
21 area, discuss the regional assessment area
22 where those investments will be done because,

1 for example, if we are working to build a
2 manufacturing plant, it may be in my area or it
3 may be out but people commute to there.

4 So as you are looking at the CRA,
5 please make sure that you are looking after
6 the unusual forms of capital that come in to
7 create jobs. Thank you.

8 MR. WALSH: Thank you. Stephen
9 Blakely.

10 MR. BLAKELY: Hello. My name is
11 Stephen Blakely and I am an consultant for
12 Measured Outcomes, LLC. We do management,
13 development, policy consulting services in
14 Northern and Central California.

15 I would like to thank the agencies
16 for the opportunity to testify today about CRA
17 and community development. My testimony draws
18 upon my experience working in the CRA
19 compliance group for a large regional bank
20 with responsibility for a 23-state regional
21 footprint, my work as a consultant and board
22 officer with various other community groups

1 and nonprofit agencies.

2 Today I wish to focus on four
3 broad but vitally important areas of the
4 Community Reinvestment Act and how it is
5 enforced. They are geographic distribution,
6 affiliated activities, access to banking
7 services, and community development.

8 First is geographic distribution.
9 The Community Reinvestment Act as currently
10 enforced concentrates most activities in large
11 urban areas. The practice leaves many poor,
12 rural communities to stagnate.

13 Data clearly shows that poverty
14 rates are higher in rural America than they
15 are in the cities. Only one in 20 urban
16 counties has a poverty rate above 20 percent.
17 For remote rural counties, that ratio is one
18 in five. The counties that have been poor for
19 a period of decades are overwhelming rural.

20 There are two main reasons why the
21 concentration of poverty, the lack of good
22 jobs and the availability of affordable

1 housing stock is relative to urban areas. As
2 economies in booming cities start pushing
3 wages and housing prices, people with fewer
4 skills and less education move to more rural
5 high-poverty counties. Unknowingly the cities
6 are exporting their poor to rural areas.

7 For these reasons, the CRA
8 activities need to be delivered in a more
9 comprehensive and equitable fashion.

10 The second issue is affiliate
11 lending. Current regulations allow
12 institutions to have the primary power to
13 decide whether their subsidiary or affiliate
14 lending will be included in their CRA
15 performance examinations. One of the few
16 limitations to that the primary decision-
17 making power is the inclusion
18 that it cannot be done selectively.

19 For example, the institution
20 cannot cherry pick loans that would be
21 favorably considered under the loans of
22 middle- to high-income borrowers.

1 On the surface, this seems like a
2 reasonable regulation. However, when you dig
3 deeper, you find that many institutions think
4 the structure of their business is designed to
5 support this rule. By moving desirable parts
6 of their business under one banking charter
7 and excluding those with less desirable
8 characteristics, institutions exclude all
9 affiliate lending and receive outstanding
10 ratings while continuing to pursue lines of
11 business that are contrary to the spirit of
12 the regulation.

13 Institutions should not be able to
14 manipulate the examination process through
15 creative corporate structures. The only way
16 to solve the issue and to create a level
17 playing field is to include all affiliate
18 lending in every examination.

19 Third is access to banking
20 services. Low-income households often lack
21 access to banking accounts and face higher
22 costs for transacting basic financial services

1 through check cashing and other alternative
2 service providers. These families find it
3 more difficult to save and plan for their
4 financial future. Living paycheck to paycheck
5 leaves them vulnerable.

6 Alternative financial service
7 providers, including check cashers, money
8 transmitters, payday lenders, title lenders,
9 and tax preparation services that provide
10 refund anticipation loans are providing a wide
11 range of financial services in low-income
12 communities.

13 A 2000 Treasury study found that a
14 worker earning \$12,000 a year would pay
15 approximately \$250 annually just to cash
16 payroll checks using these services.

17 And lastly is the issue of
18 community development. The mortgage crisis
19 has had larger impact on low- and moderate-
20 income communities than those observed in the
21 broader population. Subsequently, the needs
22 of outlying communities are more pronounced

1 now than they ever have been. Foreclosures
2 are affecting outlying borrowers in epidemic
3 proportions.

4 Community development must be
5 approached in a holistic way that takes into
6 account the potential impacts on the broader
7 community and the financial institutions must
8 be held accountable for ensuring that stated
9 outcomes are achieved.

10 This area, if properly implemented
11 and enforced is a vital component of any
12 planned response to the collective financial
13 that we find ourselves in and I am encouraged
14 by the open process adopted by the Agencies in
15 drafting the regulations. Thank you for your
16 time.

17 MR. WALSH: Thank you. Eric
18 Weaver.

19 MR. WEAVER: Hello and thanks for
20 the opportunity to be here today. I am Eric
21 Weaver. I am the CEO and founder of
22 Opportunity Fund. We are a CDFI serving the

1 San Francisco Bay area and we are the largest
2 micro lender in California, as well as the
3 largest provider of individual development
4 accounts in the nation. We also finance
5 affordable housing and community facilities
6 and we invested about 170 million dollars into
7 the neediest communities of the Bay Area.

8 You have got my written testimony.
9 I am not going to repeat that. I am just
10 going to touch on some things I heard today.

11 We started as a multibank CDC in
12 1992. So about 18 years of working with banks
13 investing in low- and moderate-income
14 communities. And one of the things I want to
15 share is that banking consolidation has really
16 not been a good thing for most lending
17 intermediaries. We have had several
18 situations of a large bank acquiring a medium
19 sized one and, as a result of that, reducing
20 its level of investment with us. And I think
21 there needs to be something to at least slow
22 down that process, if not reverse it with CRA.

1 Times like we have just been
2 through I think have really shown us, those of
3 that have been with us a long time, which
4 banks are really our friends and which are
5 not, which ones are really dedicated to CRA.

6 My experience right now is it
7 feels to us as though the Community
8 Reinvestment Act is not being enforced in a
9 meaningful way in the wake of the banking
10 crisis. We have an excellent track record as
11 a CDFI. I think we are one of the safest
12 investments around but we have seen bank
13 investments in our loan pools decrease from 22
14 million to ten million just recently. And I
15 am just kind of wondering, how does that
16 happen? How does that -- Why are banks not
17 concerned about the ramifications of cutting
18 back so drastically on the investments with
19 us? This is right after many of the same
20 banks had gratefully accepted taxpayer-funded
21 relief.

22 You know, and I think obviously

1 there needs to be -- Other people have said
2 there needs to be something factoring in
3 safety and soundness in looking at CRA
4 investments because you have got banks that
5 had worked with us for 15 years, withdrawn
6 from our loan pools. At the same time, you
7 had banks like WaMu and Wachovia earning
8 excellent CRA ratings as they were flooding
9 low-income neighborhoods with toxic loans.
10 And so it wasn't CRA that drove them to do
11 that. It was profits.

12 I think somehow as we
13 think about reforming CRA, we need to be
14 thinking about not just how many loans you are
15 making in this community but what kind of
16 loans and to who, and who are we supporting and
17 not supporting.

18 As you think about the
19 possibility of the community development test,
20 whether that is included for not, I feel like
21 there may not be enough emphasis on saving
22 products and wealth creation in CRA. That is

1 something we do a lot with. And we have been
2 doing individual development accounts, which
3 are a match savings account, for many years
4 now. We have proven the success of that
5 model. But really Citibank is the only
6 leading bank that is doing IDAs at any scale.
7 And it is confusing to me why another bank has
8 not been motivated to get into doing that.

9 As a micro lender, we make very
10 small loans to very small businesses. I see
11 the idea of increasing the limit on what
12 qualifies as a small business for CRA credit.
13 I think that is probably a good thing. But I
14 think there needs to be some kind of specific
15 credit or extra credit or carved out credit to
16 loans to very small businesses, whether the
17 bank is doing it directly or making
18 investments in CFIs that are doing it. So I
19 think just increasing that ceiling without
20 looking at the real micro lender would
21 inevitably lead to less money flowing there.

22 I don't at all approve the idea or

1 support the idea of expanding CRA to include
2 middle-income. I think it was designed to
3 address needs in low- and moderate-income
4 communities. Where some specific issues
5 are related to this financial crisis, I don't
6 think we should change CRA permanently for the
7 future in reaction to that. And I will stop
8 there.

9 Thank you.

10 MR. WALSH: Thank you. Debra
11 Beard.

12 MS. BEARD: Good afternoon. My
13 name is Debra Beard and I am one of the tens
14 of thousands of homeowners here in California
15 who are struggling to keep their home out of
16 foreclosure. I am here speaking on behalf of
17 the members of the statewide community group,
18 ACCE, The Alliance of California for Community
19 Empowerment.

20 My husband Tommy and I are typical
21 American homeowners. We have lived in our
22 Watts home for over 25 years and our kids grew

1 up there. Tommy has worked as a hospital cook
2 for over 18 years and I have worked as a
3 teacher assistant at a local school for over
4 11 years.

5 We at ACCE believe that the
6 Community Reinvestment Act should be revised
7 with an eye towards repairing and restoring
8 neighborhoods that have been devastated by
9 predatory lending and the economic crisis
10 caused by Wall Street's greed.

11 For over 20 years, many ACCE
12 leaders have been working to ensure that good
13 quality credit, meaning not predatory credit,
14 is extended to qualified borrowers in our
15 communities. Homeownership and small business
16 creation are two cornerstones for strong,
17 stable communities. And now we are watching
18 as these hard-earned gains are stripped away,
19 gains earned by families often working long
20 hours at low wage jobs to provide a decent
21 home and a better future for their children.

22 The Community Reinvestment Act

1 should be revised to make sure that lending
2 institutions can provide our communities with
3 equal access to quality fair lending and
4 address some of the new problems that these
5 same lenders have created. In other words,
6 CRA must ensure that the communities that were
7 impacted by predatory lending are not
8 subjected to a new form of redlining in the
9 name of financial prudence. We need to make
10 sure that credit is extended in our
11 communities to qualified borrowers.

12 Steps must be taken to help the
13 folks that have had their credit destroyed as
14 a result of the predatory lending and the
15 economic crisis brought to us by Wall Street.
16 Borrowers' credit scores can fall off by as
17 much as 135 points, once they fall three
18 months behind on a mortgage. According to a
19 recent FICA report, more than 43 million
20 Americans now carry a credit score of 599 or
21 below. Prior to the subprime mortgage crisis,
22 most borrowers were able to secure a loan with

1 a credit score of 640. Lenders are currently
2 requiring a score in the 700s to obtain
3 financing.

4 Banks should have affirmative
5 programs to help rebuild credit in the
6 communities damaged by the housing meltdown
7 and the recession. They should assist people
8 in restoring their credit when their credit
9 has been damaged by loss of income or other
10 events outside of their control. Banks should
11 also develop innovative mortgage programs for
12 low- and moderate-income people, which
13 includes low down payment loans and
14 underwriting, which properly evaluates their
15 income, savings, debts, and credit.

16 In terms of the CRA review,
17 process of bank performance, one, evaluations
18 must include race and ethnicity, and not rely
19 just on income evaluations.

20 Two, the world of community groups
21 in the process must be strengthened. CRA
22 agreements between lending institutions and

1 community organizations should be considered
2 positively in the CRA review and in any exams
3 involving mergers or acquisitions.

4 Three, any institutions which
5 receives an unsatisfactory rating should be
6 encouraged to partner with local nonprofit
7 community organizations they serve as part of
8 the corrective plan to find collaborative
9 strategies to improve community investment.

10 And four, an evaluation of the
11 assessment area should provide enough level of
12 detail that even if an institution receives an
13 overall satisfactory or higher rating,
14 geographic areas with inadequate performance
15 should be identified and an improvement plan
16 required before the next review.

17 And of course, none of this works
18 unless all lending institutions are covered by
19 the law.

20 I am glad you have come out to
21 California but sitting inside listening to
22 talking heads is not enough. You need to come

1 out to my neighborhood. I will take you down
2 streets that a year ago were full of families
3 that are now full of vacant houses.

4 I will take you to visit Millicent
5 "Mama" Hill, an amazing woman who taught in
6 South LA schools over 30 years until she
7 retired and began to mentor and tutor
8 neighborhood children. She is now a renter in
9 the home that she had owned for years, one
10 more victim of the predatory lenders of Wall
11 Street that were allowed free rein to wreak
12 havoc on our neighborhoods by our so-called
13 government regulators.

14 It is time for you all to step up.
15 Step up to the big banks that have done so
16 much damage to working class communities
17 across the country. What I am really saying
18 is it is time for regulators to look out for
19 Main Street, not Wall Street.

20 Thank you for giving me the
21 opportunity to speak.

22 MR. WALSH: Thank you. Bernard

1 Deasy.

2 MR. DEASY: Good afternoon. My
3 name is Bernie Deasy and I am president of
4 Merritt Community Capital. We are an Oakland-
5 based tax credit investor serving the State of
6 California. But today I am speaking to you on
7 behalf of the National Association of State
8 and Local Equity Funds, an organization
9 comprised of 16 firms around country serving
10 in 36 states that have raised over seven
11 billion dollars and produced over a 100,000
12 units of tax credit housing.

13 And you call know that the low-
14 income housing tax credit program has been a
15 tremendous engine for producing affordable
16 housing over the last 20 some-odd years, as
17 well as thousands of construction jobs related
18 to those projects. But in today's
19 environment, we are trying to raise more funds
20 for tax credit investments. The fact that
21 Fannie Mae and Freddie Mac are no longer
22 investing in tax credits when they comprised

1 about 40 percent of the market in the past
2 has caused a tremendous shortfall in tax
3 credit equity investment.

4 Many banks, CRA-motivated banks,
5 have been tremendous source of tax credit
6 equity over the past years but today we are
7 looking at some barriers to their investing
8 that we want to clarify and we want to remove.

9 One of the things that needs clarity
10 is the regulations that govern the assessment
11 areas and how they are evaluated. In today's
12 Q and A one section refers to the fact that a
13 bank may receive credit, consideration for
14 credit, if they have adequately addressed the
15 community needs in their area but are
16 investing a project that may be within the
17 footprint of an investment opportunity but
18 beyond the footprint of their particular
19 assessment area.

20 And what we are recommending
21 specifically is a change in the Q and A which
22 basically would say that some institution that

1 has been demonstrated on its last exam to
2 adequately address community development needs
3 in an assessment area receive full credit for
4 community development activities that benefit
5 a geographic area located somewhere within the
6 broader state-wide or regional area that
7 includes the institution's assessment area but
8 may not actually have a specific project in
9 that assessment area.

10 This will allow a bank that is
11 essentially looking at, say, Los Angeles only
12 to get credit for investing in an
13 entity that provides investment opportunities
14 that are broader than the county of Los Angeles
15 but include the county of Los Angeles. That
16 will essentially give more firms the
17 clarification and the confidence that they
18 will receive appropriate credit when making
19 such investments. And it is clear that in
20 today's market, we are trying to generate more
21 investment and tax credits and we need this
22 clarity of regulation to allow banks to

1 proceed with the confidence that they will
2 receive the appropriate credit.

3 Thank you for your attention and
4 the opportunity to speak to you today.

5 MR. WALSH: Thank you. Dora
6 Westerlund?

7 UNIDENTIFIED SPEAKER: She's not
8 here.

9 MR. WALSH: All right. Joni
10 Halpern.

11 UNIDENTIFIED SPEAKER: She's not
12 here either.

13 MR. WALSH: Okay. Michael Banner.

14 UNIDENTIFIED SPEAKER: He's not
15 here, either.

16 MR. WALSH: Okay, Carol Gallant.

17 MS. GALLANT: Good afternoon. I
18 want to thank you for convening these hearings
19 about the Community Reinvestment Act. The CRA
20 is a critical element in the ongoing work to
21 increase economic opportunity in the nation's
22 poorest communities.

1 My name is Carol Gallant and I am
2 the Director of Program Development for the
3 largest Asian community development
4 corporation in the nation, PACE. Founded 35
5 years ago to serve Asians, we now serve all
6 low-income ethnic minorities, immigrants,
7 refugees and asylees that are in the Los
8 Angeles area, more than 50,000 a year.

9 I have submitted my whole written
10 comments and we are getting kind of late and
11 thanks for still being awake. So I am just
12 going to give you an abbreviated version.

13 In the years from the late 1980s
14 until now, CRA has been eroded by factors that
15 have been discussed here today and at other
16 hearings. Changes in the size of regulated
17 institutions, mergers, acquisitions, failures,
18 the evolution of new types of non-bank
19 entities, and the economy in general to name
20 a few. As CRA has been watered down, credit
21 availability for low-income communities and
22 direct bank participation in community-based

1 organizations has also been eroded.

2 In 2010, the extent of the
3 dilution of CRA is evidenced by the fact that
4 99 percent of the banks pass their CRA exam.
5 Are 99 percent of the banks examined really
6 meeting the credit needs of all the
7 communities from which they get their
8 deposits? I can only speak about PACE's
9 experience.

10 Over the past two years, the
11 number of small business loans that our
12 clients were able to get funded from banks
13 declined by 79 percent and the amount of the
14 loans received by small businesses declined by
15 83 percent. These statistics, while shocking,
16 still do not tell the whole story of how
17 unavailability of credit affects real people.

18 One of our clients was a man I
19 will call John Tran. Mr. Tran came to the
20 U.S. as a refugee from Vietnam in the late
21 1990s. Although he was working as a teacher
22 back home, his lack of English language skills

1 prevented him from pursuing a job in his
2 profession. Mr. Tran came to PACE's Business
3 Development Center for entrepreneurial
4 training. He was able to start a seafood
5 delivery business and by 2006, his business
6 was prospering. He had a delivery truck and
7 employed two other people.

8 Mr. Tran ran the business
9 profitably and saved as much money as he could
10 so that he could buy a home for his extended
11 family, which included himself, his wife,
12 their two children, his wife's parents and a
13 cousin.

14 As the business continued to grow,
15 he needed additional cash to pay his suppliers
16 while waiting for 15 to 30 days after delivery
17 for payment from his restaurant, grocery, and
18 other customers.

19 Turned down at the bank for
20 conventional small business financing, the
21 loan officer suggested he use a home equity
22 loan of \$50,000 to provide the financing that

1 he needed. In 2008 his home equity loan was
2 frozen, his rates on his credit cards more
3 than doubled and suddenly he had no sources of
4 cash to get the next batch of supplies and to
5 pay his employees.

6 The final blow came with the
7 dramatic increase in gas prices. With no
8 source of operating capital and increased
9 operating costs, Mr. Tran was forced to give
10 his trucks up. Without his business income,
11 he started falling behind in his mortgage
12 payments. He came to PACE to get help with
13 the short-sale process. We managed to
14 negotiate with the main bank but the secondary
15 loan holder refused. His home was foreclosed
16 and he moved out of state. His American dream
17 of success that once seemed so close was
18 dead.

19 We need the unequivocal buy-in and
20 commitment of financial institutions to
21 comprehensive community development as an
22 essential ingredient in the ongoing effort of

1 our neighborhoods and our nation to continue
2 to address the problems of persistent poverty.

3 Thank you.

4 MR. WALSH: Thank you. Richard
5 Alarcon.

6 MS. BRENNAN: Hi and good
7 afternoon. I am not Richard Alarcon but I am
8 his staff. My name is Sarah Brennan. I am
9 here to testify on his behalf.

10 Richard Alarcon is the Los Angeles
11 City Councilmember representing the Seventh
12 District of the City of Los Angeles. That
13 includes many communities in the Northeast San
14 Fernando Valley with over 250,000 residents.

15 Councilmember Alarcon wanted to
16 deliver these remarks personally but,
17 unfortunately, he is unable to attend due to
18 a funeral. He did submit prepared testimony
19 last week and since time is limited today, I
20 am just going to touch on the heart of his
21 remarks.

22 Both here in Los Angeles and

1 across the country there is growing interest
2 among local governments to invest resources in
3 financial institutions that are, in turn,
4 reinvesting in our local communities. In a
5 time of economic distress, this is a budget
6 neutral way to promote economic activity at
7 the local level.

8 Here in Los Angeles, Councilmember
9 Alarcon is spearheading the Responsible
10 Banking Act in City Council. This Act will
11 prioritize investing city dollars in financial
12 institutions that demonstrate their local
13 reinvestment activity within Los Angeles. The
14 initial version of the bill was unanimously
15 passed by Council this spring and the city
16 attorney's draft ordinance is now being
17 circulated.

18 Councilmember Alarcon believes the
19 logic is simple, that taxpayers can and should
20 expect that at least some of their tax dollars
21 be reinvested locally, whether in local
22 businesses, local teenager development

1 projects, or to promote local homeownership.
2 Of course, this rationale is similar to what
3 drove the creation of the Community
4 Reinvestment Act over 30 years ago. Namely,
5 that financial institutions have the
6 obligation to serve the communities with which
7 they do business. However, in order to enact
8 meaningful local policies that leverage this
9 area, such as Los Angeles' Responsible Banking
10 Act, the job of local governments will be made
11 immeasurably easier, with the assistance of
12 federal regulators, by collecting the data
13 needed for this effort.

14 Modernizing the Community

15 Reinvestment Act must, therefore, include
16 local data disclosure. Cities and communities
17 need the tools with which to gauge the
18 investment of financial institutions at the
19 local, rather than aggregate level.

20 For example, the FDIC's annual
21 summary of deposits could be modified to
22 collect information on lending commercial,

1 industrial, and residential by branch or by
2 zip code. This type of data could be used not
3 only by cities, but by academics and
4 nonprofits to better monitor the effects of
5 CRA on a local level community as well as to
6 measure the success of initiatives such as the
7 one that we are trying in Los Angeles.

8 Finally since we know today that
9 not all communities served by an institution
10 have a local branch in that community, it
11 would be necessary to have this type of
12 information from financial institutions that
13 do not have a branch but do lend within an
14 area zip code.

15 On behalf of LA City Councilmember
16 Richard Alarcon, thank you for the opportunity
17 to testify and thank you for considering these
18 types of local data disclosure, which would
19 allow cities a greater role in leveraging the
20 CRA.

21 MR. WALSH: Thank you. Robert
22 Wiener.

1 MR. WIENER: Good afternoon.

2 Robert Wiener with California Coalition for
3 Rural Housing. Since we are using a lot of
4 superlatives, we are the oldest statewide
5 association of affordable housing developers
6 and advocates in California.

7 Our members work in rural areas,
8 urbanizing areas of California and these are
9 areas that even before the current economic
10 crisis had been beset by endemic problems,
11 such as double digit unemployment, typically
12 three to four times greater than the state
13 rate; very low incomes because of seasonal
14 labor based on agriculture, tourism, and
15 services; some of the highest child poverty
16 rates in the United States, comparable to
17 Appalachia and to the Mississippi Delta; high
18 concentrations of farm workers; and Native
19 Americans who are some of the worst housed
20 populations in the United States, living in
21 third-world housing conditions; and
22 discriminatory lending practices that have

1 long-plagued rural areas equivalent in very
2 many ways to inner city areas, redlining,
3 higher interest rates, shorter amortization
4 periods, high down payments, and predatory
5 lending.

6 Recently, we conducted a survey of
7 our members and found the following. Number
8 one is that banks are not lending for land
9 acquisition and construction of single-family
10 homes, especially for mutual self-help
11 housing, which is a specialty of our members
12 similar to the Habitat method. And even
13 though there is a huge demand for this kind of
14 housing in rural areas, and virtually a zero
15 foreclosure rate.

16 Number two is when banks are
17 lending, they are imposing very unreasonable
18 terms and conditions, such as requiring a
19 contract of sale even before the units are
20 built and providing a loan to value that used
21 to be 70 percent and is down now to 50
22 percent. And because appraisals are

1 artificially low, that means that banks are
2 virtually lending very little for development
3 in rural areas.

4 Moreover, in some cases they are
5 calling loans, existing loans, forcing
6 projects into foreclosure. They are also
7 selling foreclosed properties to speculators,
8 rather than to socially-minded nonprofits.
9 Our members are trying to pick up developed
10 lots and banks are ignoring them.

11 Recently there has been a
12 resurgence of tax credit investment in urban
13 areas but not so in rural areas. CDFIs are
14 having difficulty getting banks to capitalize
15 and invest in rural areas. So basically,
16 there is a total - almost a moratorium - on
17 rural lending.

18 So we recommend the following.
19 First off, as many have said before,
20 assessment areas need to be reconsidered so
21 that you look at not the percentage of a
22 bank's portfolio in a particular community,

1 but the percentage that bank's lending
2 represents within that community, which should
3 increase the percentage of rural lending.

4 Moreover, banks should receive
5 credit for investing in rural counties,
6 investing outside of their assessment areas.
7 Assessment areas should be based, should be
8 evaluated using the same criteria, regardless
9 of the size of the lenders, which again
10 discriminates against rural areas.

11 Performance evaluations should be based upon
12 the investing in minority communities, low-
13 income communities, difficult to develop
14 projects.

15 Finally, banks should also
16 consider -- The regulators should also
17 consider looking at the non-depository nonbank
18 affiliates, such as mortgage companies and
19 other entities that provide lending.

20 Thank you very much for your
21 consideration of our proposals.

22 MR. WALSH: Thank you. Ann

1 Silverberg.

2 MS. SILVERBERG: Good afternoon.

3 Perhaps I am the shortest to provide testimony
4 this afternoon.

5 My name is Ann Silverberg and I am
6 the Vice President of Bridge Housing
7 Corporation, a California-based nonprofit
8 developer of over 13,000 affordable homes for
9 working families and seniors.

10 I am here today in my capacity as
11 President of the Board of Directors of the
12 Nonprofit Housing Association of Northern
13 California, NPH. NPH is the collective voice
14 of those who support, build, and finance
15 affordable housing in Northern California.
16 NPH promotes the proven methods of the
17 nonprofit housing sector and focuses
18 government policy on housing solutions for
19 lower income people who suffer
20 disproportionately from the housing crisis.

21 I would like to thank you for this
22 opportunity to provide comments on how to

1 improve and modernize the regulatory
2 implementation of CRA. CRA-based incentives
3 have acted as a catalyst for private
4 investment in high impact affordable housing
5 and community development projects. NPH
6 members have developed thousands and thousands
7 of units of affordable housing in partnership
8 with CRA-motivated financial institutions that
9 have invested in low-income housing tax
10 credits and have acted as commercial lenders
11 for affordable housing developments.

12 Through these partnerships, NPH
13 members have identified two key issues that
14 can be improved through updates to the CRA
15 regulations. And a lot of my comments here
16 echo those of the testimony that you have
17 heard earlier and the written testimony that
18 you will receive. So at least we are thinking
19 alike.

20 So first community development.
21 We recommend an approach that increases the
22 focus and importance on community development

1 activities within the CRA-examination and
2 reporting framework. Building and rebuilding
3 healthy communities should be an integral,
4 separate and measurable part of CRA
5 examination reporting structure. The
6 regulators should expand the term "community
7 development" to include loans, investments,
8 and services by financial institutions inside
9 and outside their assessment areas, using a
10 new category of national needs. And I think
11 that is a term that has been talked about.

12 CRA examinations should also
13 include a new community impact category for
14 qualitative extra credit to financial
15 institutions that lend to, invest in, or
16 provide service to nonprofit developers, CDFI
17 lenders and others.

18 Incorporating these aspects into
19 CRA evaluations will help ensure that
20 financial institutions have appropriate
21 incentives to make loans and investments that
22 can create qualitative community value and

1 meet community needs.

2 The second point that I would like
3 to address is assessment areas or geographic
4 coverage. The region, area of many financial
5 institutions -- I thought it was the bell.
6 Racing against the bell.

7 (Laughter.)

8 MS. SILVERBERG: The reach and
9 impact of many financial institutions can and
10 have often extend far outside their physical
11 deposit-based assessment areas. Increasingly,
12 financial institutions are conducting business
13 and we see the economic benefits from markets
14 where they have little or no physical
15 presence. CRA assessment areas should be
16 rethought to ensure financial institutions
17 provide significant community benefits at
18 local and national levels.

19 Assessment areas for large
20 national financial institutions should be
21 expanded to reflect the broad impact these
22 institutions have outside their current

1 assessment areas. These institutions should
2 be evaluated on their performance in large
3 metropolitan areas where they have a physical
4 presence, as well as in their investment
5 within a state and then their efforts to meet
6 nationwide community development challenges,
7 such as affordable or special needs housing.

8 Large institutions should also
9 receive CRA evaluation credit for lending and
10 investments in entities like nonprofit,
11 mission-oriented community development
12 organizations, and conduits like tax credit
13 funds, CDFIs that operate outside their
14 assessment areas. These flexible assessment
15 criteria will create incentives for banks and
16 financial institutions to undertake broad
17 community development activities based on a
18 variety of community needs.

19 CRA has helped to create thousands
20 of units of desperately needed affordable --
21 there it is -- affordable housing in
22 California and I appreciate the opportunity to

1 make these comments today. Thank you.

2 MR. WALSH: Thank you. If you had
3 only cut off that last line.

4 (Laughter.)

5 MR. WALSH: Dorothy Herrera.

6 UNIDENTIFIED SPEAKER: She's not
7 here.

8 MR. WALSH: Okay. Abigail
9 Marquez.

10 MS. MARQUEZ: Good afternoon.
11 Abigail Marquez. I am providing testimony on
12 behalf of the City of Los Angeles Community
13 Development Department.

14 The Community Reinvestment Act is
15 an important legislation that encourages
16 financial institutions to invest in our
17 communities. Many of our low-income
18 neighborhoods need responsible banks that
19 offer low-cost products and services to help
20 people manage their household budgets, save
21 for the future, and build assets.

22 Unfortunately, because of the lack

1 of bank activity in some communities, many
2 people utilize check cashers and payday
3 lenders that will charge them usurious fees.
4 While these institutions are providing a
5 service, they don't offer products that help
6 people build wealth.

7 Studies from the Brookings

8 Institution and the Center for Financial
9 Services Innovation estimate that Los Angeles
10 has 500,000 unbanked individuals. In
11 addition, recent research from the Pew
12 Charitable Trust concludes that substantial
13 segments of the Los Angeles population
14 continue to find existing banking products and
15 services unsatisfactory.

16 To help educate people about the
17 value of having a bank account, the mayor's
18 office launched the Bank on LA Campaign last
19 year to promote banking and to refer people to
20 low-cost bank accounts. The campaign brought
21 together 12 financial institutions and
22 recruited nonprofit organizations in

1 partnership with the United Way of Greater Los
2 Angeles.

3 The Community Development
4 Department has also made a significant
5 investment in helping families become
6 economically self-sufficient. With the recent
7 redesign of our human service delivery system,
8 our city now has the infrastructure in place
9 to support low-income families. Our
10 department manages 21 centers referred to as
11 the family source centers, which are providing
12 coordinated services to families most in need.

13 Our family source centers have
14 also adopted initiatives such as Bank on LA
15 and are expected to promote the campaign,
16 deliver financial education, refer unbanked
17 clients to local banks, and track their
18 progress. However, because many of our
19 centers are located in areas of the city with
20 the highest concentrations of poverty, many of
21 the centers do not have a local
22 financial institution in their neighborhood

1 where they can refer clients.

2 Our city's system to support the
3 unbanked is expected to touch 50,000 people
4 annually and we hope to work together with
5 banks to serve this population.

6 As the CRA is being revised, the
7 needs of the unbanked in Los Angeles should
8 also be considered and programs like this
9 should be supported. Thank you.

10 MR. WALSH: Thank you. Sofia
11 Quinones.

12 MS. QUINONES: (Speaks in
13 Spanish.) My name is Sofia Quinones. (Speaks
14 in Spanish.) -- Los Angeles.

15 I came here today because I am
16 coordinating and organizing for the first time
17 in Los Angeles a Spanish language workshop
18 entitled Capital Para Su Negocios, Capital for
19 Your Business. And it astounded me that it
20 had never been done in Los Angeles before. So
21 I contacted SBA, U.S. Department of Commerce
22 Minority Business Development Agency,

1 contacted the Board of Equalization and I said
2 I can't believe this has never been done
3 before. So I am targeting specifically
4 Spanish language businesses. And I am going
5 to tell you people in this audience, every
6 business I have talked to does not know of SBA
7 and does not know of CRA. When they hear of
8 CRA, they say eminent domain because they
9 think of a Community Development Agency.

10 And just as some background, I
11 also have a degree in Mexican-American
12 studies. So having an understanding
13 culturally, you know, the background and the
14 history of your community is very important,
15 specifically because of past wrongs, issues of
16 discrimination, redlining, at least LA was
17 redlined, it was one of the first examples.

18 We are not a part of the City of
19 Los Angeles. We were segregated. And
20 unfortunately we have inherited a lot of that
21 disenfranchisement and we are trying to bridge
22 that gap with the lenders. The federal

1 government bailed out big business but what
2 about small business?

3 We also got involved because we
4 have major development with East LA Gold Line
5 Extension and it was a devastation. We lost
6 businesses all around the corridor because
7 they just could not deal with that project and
8 the businesses went under.

9 Another issues that has really
10 devastated minorities is the passing of the AB
11 32. I am a member of the Sierra Club but then
12 I have seen the devastation. It has
13 annihilated small business.

14 And if the government is going to
15 hold businesses accountable to deal with this
16 regulation, it needs to hold the banks
17 accountable. And there is predatory lending
18 that there is no oversight on and that has to
19 do with vehicles, machinery, and development.
20 It has been outlawed yet banks continue to
21 allow the financing of this equipment,
22 machinery and vehicles. So now you have

1 businesses saying that I owe \$150,000 on this
2 and \$200,000 on that and now I can't even use
3 it and you are telling me it is bad.

4 So this has negatively impacted
5 the Spanish language community and also other
6 communities in Northern California that speak
7 Punjabi in specific industries. It also
8 impacted small business and small farms,
9 organic farms. We are now going to have
10 larger factory farms take over those small
11 farms because farmers cannot deal with the
12 upgrade and dealing with the California
13 Resources Board and dealing with the grants
14 that were supposed to go to small business
15 negatively impacted California because the
16 majority of those grants went to businesses
17 outside of California and that is just wrong.

18 So I am trying to do a lot of
19 things. When we were talking about
20 comprehensive workshop, you just can't build
21 housing when you already have a triple truck
22 system, when emergency rooms are crowded and

1 we do not have the infrastructure to build
2 more affordable housing in areas of color but
3 I have already been inundated with it. And
4 then when we do get these housing projects,
5 they are cardboard boxes. And we are now
6 looking at the contractor now. There is a lot
7 of problems with housing and contracting.

8 So you know, we are having our
9 workshop on the 26th and I came here to see if
10 you are a lender and if you want to partner with
11 East LA and specifically the Spanish language
12 community, please contact me. Because as I
13 mentioned, no one knows who CRA is and people
14 don't know who SBA is because there is a
15 language barrier. And hopefully you can, as
16 a Board, also deal with that by upgrading your
17 web page so that we can go access it and it
18 can be in Spanish with the simple click of a
19 button. I am hoping you can do that. Thank
20 you.

21 MR. WALSH: Thank you. Mr.
22 Banner? Okay. We have someone who was

1 joining us, Michael Banner.

2 MR. BANNER: Thank you and I
3 apologize for not making it earlier but I was
4 trying to help our housing authority figure
5 out a strategy of how to survive.

6 I am here today to speak about
7 something you have probably heard about ad
8 nauseam, small business lending. I represent a
9 local community development financial
10 institution, 30 years old, and all we do is
11 business lending.

12 And I particularly wanted to
13 emphasize the point that we have had the
14 system now where if financial institutions
15 that participate, and I will tailor these
16 comments to the Small Business Administration
17 program, 7(a) program, which is dominated by
18 big banks. They have moved away from it, so
19 the market collapsed.

20 One of the solutions that I would
21 advocate for is that the CDFI industry be
22 induced, incentived, cajoled, and assisted in

1 getting involved in lending in that particular
2 space under the current guidelines. In order
3 to do that, though, they are going to need
4 investment from financial institutions to
5 serve that market. And I think it is
6 particularly important when you look toward
7 the performance historically in a bank-only
8 driven SBA lending program like the 7(a) and
9 what has happened to minority borrowers.

10 If you believe that small business
11 is the driver for economic development and a
12 lot of communities, especially communities of
13 color, access to capital goes hand-in-hand
14 with that. If you have bank-driven programs
15 that have a pretty abysmal rate at lending to
16 minority borrowers with a government
17 sanctioned guaranteed program, I think it is
18 time to let other people take a shot at it.

19 But what you have to be able to do
20 is to induce financial institutions through
21 maybe some tinkering with CRA that there is an
22 incentive for them to support with investment.

1 The institutions that actually want to try to
2 serve that market, and it is attributed to the
3 comments just made by the prior speakers,
4 that there are markets where people don't know
5 what SBA means because nobody is talking to
6 them. There is not outreach there.

7 Finally, the other thing I would
8 suggest that you probably heard a lot about is
9 keeping score. Should we be collecting
10 information on ethnicity, race, and data for
11 small business lending like we do in HMDA? I
12 would urge you to think that yes, we should.
13 It is clear that you can't fix a problem if
14 you don't know the magnitude or have
15 information about the problem. And collecting
16 the data would be one step along the way, some
17 people might say it is intrusive but it would be
18 the way to find out exactly what is going on,
19 who is doing it and how we can change behavior
20 and meet the needs in communities, once we
21 have information.

22 I happen to serve on an advisory

1 board for a bank here in California which
2 actually has a special program that is allowed
3 by a regulatory agency to collect information
4 like this on small business lending.

5 I have been told and have seen
6 data that would suggest that those loans
7 perform just as well as the loans in their
8 regular portfolio. So the fact that ethnic
9 borrowers, minority borrowers aren't getting
10 access to capital, there is evidence that
11 their loans will perform just as well as
12 anything else to me is a disparity and it is
13 a disparity we can fix.

14 I thank you for your appreciation
15 in listening to my comments.

16 MR. BOWMAN: Thank you.

17 MR. WALSH: Thank you very much.

18 And that brings us to the end of
19 our list. I would like to thank our
20 individual witnesses for their testimony. And
21 with that testimony, that concludes the last
22 of the four public hearings on revising the

1 Community Reinvestment Act regulations. We
2 have heard from a broad spectrum of community
3 leaders -- Do we have one more? No. --
4 community leaders, bankers, nonprofit
5 organizations, individuals who provided a
6 range of ideas for how we might proceed in
7 updating the regulations.

8 In addition to this series of
9 hearings, as I mentioned a couple of times, we
10 have invited the public to comment in writing
11 and those comments are due by August 31st.
12 After this comment period closes, we will
13 begin the next phase of our regulatory review
14 process, which involve a careful review of the
15 testimony and the public comments we receive
16 to identify areas in which we think changes to
17 the CRA regulations may be appropriate and
18 beneficial. Then we will roll up our sleeves
19 to develop proposals that address those
20 issues.

21 Any changes we propose to the CRA
22 rules will be published for public comment.

1 From the testimony we have heard today and at
2 the other hearings, I can tell you that we
3 have a lot of good ideas that will help to
4 shape the next phase of our work.

5 In concluding, I would like to
6 thank the OCC staff members Beth Castro,
7 Sharon Canavan, Susan Howard, and Hershel
8 Lipow, the terrifying man with the bell, for
9 their work in organizing today's event.

10 I would also like to thank the
11 staff of the Federal Reserve Bank of San
12 Francisco, Scott Turner and Michelle Estabo
13 who were instrumental in helping us coordinate
14 all the details for today's hearing. I want
15 to thank all of you for participating and this
16 hearing is adjourned.

17 (Whereupon, at 4:32 p.m., the
18 foregoing proceeding was
19 adjourned.)
20
21
22

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