

1 BOARD OF GOVERNORS OF THE  
2 FEDERAL RESERVE SYSTEM  
3 FEDERAL DEPOSIT INSURANCE CORPORATION  
4 OFFICE OF THE COMPTROLLER OF THE CURRENCY  
5 and  
6 OFFICE OF THRIFT SUPERVISION  
7 \* \* \* \* \*  
8 JOINT PUBLIC HEARING ON  
9 COMMUNITY REINVESTMENT ACT (CRA) REGULATIONS  
10 \* \* \* \* \*  
11 FRIDAY, AUGUST 6, 2010  
12 AMENDED 09/01/10  
13 \* \* \* \* \*

14 The Hearing convened at 9:03 a.m. in the Conference  
15 Room of the Federal Reserve Bank, located at 1000 Peachtree  
16 Street, N.E. Atlanta, Georgia.

17 JOHN E. BOWMAN, Acting Director, Office of Thrift  
18 Supervision, presiding.

19 PRESENT:

20 MARTIN J. GRUENBERG, Vice Chairman, Federal  
21 Deposit Insurance Corporation

22 TIMOTHY R. BURNISTON, Senior Associate Director, Federal  
23 Reserve Board

24 BETH CASTRO, Director of Community Development, Office  
25 of the Comptroller of the Currency

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1 P R O C E E D I N G S

2 9:03 a.m.

3 VICE PRESIDENT GREENE: Good morning. My name is  
4 Todd Greene and I am the Community Affairs Officer and the  
5 Vice President for Community and Economic Development here at  
6 the Federal Reserve Bank of Atlanta, and it's my pleasure to  
7 welcome you here today to the Community Reinvestment Act  
8 hearing.

9 These hearings are sponsored by the Board of  
10 Governors of the Federal Reserve System, the Office of Thrift  
11 Supervision, the Federal Deposit Insurance Corporation, and  
12 Office of the Comptroller of the Currency -- so try saying  
13 that five times really quickly -- and fortunately today's  
14 meeting is being chaired by the Office of Thrift Supervision,  
15 our regulator partner. So on behalf of, Dennis Lockhart, our  
16 president, I welcome you here today.

17 And as you know, we're here to consider changes to  
18 the Community Reinvestment Act, and I am pleased to introduce  
19 my colleague, John Bowman, who will be the presiding officer  
20 for today.

21 If you have any questions our staff people are  
22 located around the building and we're pleased to assist you  
23 with whatever you need, and with that, I'll turn it over to  
24 John.

25 DIRECTOR BOWMAN: Todd, thank you very much.

1           Good morning. My name is John Bowman. I am the  
2 Acting Director of the Office of Thrift Supervision. Welcome  
3 to the second of four public hearings designed to explore  
4 possible ways to improve the Community Reinvestment Act  
5 regulations.

6           I am pleased that the OTS had the opportunity to  
7 organize today's hearing along with the other federal  
8 agencies that evaluate CRA performance. I would like to  
9 extend special thanks to the Federal Reserve Bank of Atlanta  
10 for graciously providing us with such an appealing venue for  
11 this event.

12           My colleagues here this morning -- some in person,  
13 some on the phone -- include Martin J. Gruenberg, Vice  
14 Chairman of the FDIC, who will be joining us or has joined us  
15 by phone; Tim Burniston, Senior Associate Director at the  
16 Federal Reserve Board; and Beth Castro, Director of Community  
17 Development, the Office of the Comptroller of the Currency.  
18 Each of us will make a few opening remarks before we begin  
19 the most important business, hearing from our panelists.

20           The CRA requires financial institutions to meet the  
21 credit needs of their entire communities, including low and  
22 moderate income areas. Consistent with this mandate, both  
23 the CRA and the agency's implementation of these rules  
24 encourage institutions to maintain branches in low and  
25 moderate income neighborhoods, and to develop innovative

1 products and services for lower income households. CRA also  
2 provides the impetus for financial institutions and  
3 community-based organizations to collaborate to promote

4 access to credit and related banking services for underserved  
5 communities.

6           The last comprehensive revisions to the CRA  
7 regulations were made in 1995. Since that time, the banking  
8 industry and the financial markets have significantly  
9 changed. The needs of low and moderate income households in  
10 underserved communities have changed, too. We are holding  
11 these hearings to see if changes to the rules are also  
12 needed, and if so, what those changes should be. Notably, we  
13 are conducting CRA hearings in different parts of the country  
14 to gain insights on regional and local perspectives on those  
15 issues.

16           Many questions can be discussed as we consider how  
17 to remodel the CRA rules. While the responses to some of  
18 these questions would require legislation to implement, the  
19 emphasis today and throughout the four hearings is on  
20 regulatory changes that would come within the purview of the  
21 agencies represented here.

22           A key topic for today is how residents of  
23 underserved communities can receive better access to  
24 financial services. We want to hear your observations about  
25 what CRA got right in promoting the development of products

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1 and services that help consumers become part of the financial  
2 mainstream.

3           We are also interested in your thoughts about  
4 changes necessary to provide unbanked and under-banked  
5 populations with better access to affordable -- and I will  
6 emphasize: responsible -- financial products and services. In  
7 addition to physical bank branch networks, what innovative  
8 alternative delivery methods can be used to meet these needs?

9 I am interested in hearing your views.

10 We also invited today's participants to address how  
11 smaller institutions have met the credit needs of distressed  
12 and underserved communities, including rural areas. It is  
13 critical that all of these communities benefit from a CRA  
14 structure that is responsive and innovative, whether the  
15 economy is functioning robustly or under stress. At the  
16 first CRA hearing in Arlington, Virginia, some participants  
17 suggested that we revise the CRA regulations to encourage  
18 institutions to offer a variety of asset and wealth building  
19 products in underserved communities. I hope to hear more  
20 about such approaches today.

21 In considering these and other questions we, the  
22 four agencies represented here today, are committed to  
23 working with all stakeholders to ensure that the mission of  
24 CRA continues to be fulfilled. We are keenly interested in  
25 taking steps to ensure that the CRA rules continue to provide

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1 an incentive for institutions to provide financial products  
2 and services to communities and consumers in a responsible,  
3 affordable, and sustainable manner. Your input is invaluable  
4 in this process. I'd like to thank you all for participating  
5 in this hearing and I look forward to your insights and  
6 thoughtful recommendations.

7 I'd now like to ask Vice Chairman Gruenberg for his  
8 remarks.

9 VICE CHAIRMAN GRUENBERG: John, thank you very  
10 much. Can you hear me okay?

11 DIRECTOR BOWMAN: We can hear you fine, Marty.

12 VICE CHAIRMAN GRUENBERG: Thank you.

13 I very much regret not being able to be there in



14 person. I had planned to but, of course, there were problems  
15 with the flights down to Atlanta, so I'm going to participate  
16 electronically. And I would like particularly to thank the  
17 staff at the Federal Reserve Bank in Atlanta for allowing me  
18 to participate in this manner.

19 The purpose of the hearings, as stated in the  
20 federal emergency notice announcement is to receive public  
21 comment on the Community Reinvestment Act regulations and to  
22 solicit views on whether and how the four federal agencies  
23 responsible for supervising the Community Reinvestment Act  
24 should revise the regulations to better serve the goals of  
25 the CRA.

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1 As John indicated, this is the second of four  
2 hearings the agencies are holding. The first was in  
3 Arlington, Virginia, and on August 12th there will be a  
4 hearing in Chicago, and August 17th will be a hearing in Los  
5 Angeles. As John also indicated, there has not been a  
6 comprehensive review of the regulation implement by CRA since  
7 1995.

8 During the past 15 years, as is well understood,  
9 there have been dramatic changes in the financial services  
10 industry.

11 we have moved from an industry in which most banks  
12 have branches in one state to an industry in which many  
13 institutions have branches in multiple states and a number  
14 have deposit facilities nationwide. Some institutions now  
15 conduct the majority of their deposit and lending activities  
16 using alternative delivery systems such as the internet.

17 The basic purpose of CRA is to expand access to  
18 credit and basic banking services on a sustainable basis to  
19 homeowners, small businesses, and consumers in underserved

20 communities has never been more relevant, particularly given  
21 the current challenging credit market environment. Low and  
22 moderate income and minority communities have been  
23 particularly impacted by tight credit market conditions. In  
24 light of that, as well as the dramatic changes in banking  
25 over the past 15 years, it makes sense to consider whether

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1 and how CRA could be made more effective.

2           These hearings are designed to solicit a diverse  
3 range of views on CRA. Although they are not limited to  
4 particular topics, the agencies outlined in the Federal  
5 Register notice a broad set of issues on which we are seeking  
6 public comment including: geographic coverage, CRA  
7 performance tests and asset thresholds, affiliate activities,  
8 small business and consumer lending evaluations data, access  
9 to banking services, community development, ratings and  
10 incentives, and the effective evidence of discriminatory or  
11 illegal credit practices, and CRA evaluations. However,  
12 today's hearing we will particularly focus on access to  
13 banking service and service assessment, which is an  
14 incredible issue.

15           In conclusion, if I may I would like to commend  
16 Director Bowman and the staff of the Office of Thrift  
17 Supervision for organizing today's hearing and especially the  
18 outstanding and extensive array of witnesses who are prepared  
19 to testify. And I would also like to thank the Federal  
20 Reserve Bank of Atlanta for sharing and allowing us to use  
21 this facility. Thank you all very much.

22           DIRECTOR BOWMAN: Thank you.

23           Tim? Tim Burniston.

24           MR. BURNISTON: Thank you, John.

25 welcome and thank you all for coming. I am Tim

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1 Burniston. I'm a Senior Associate Director in Washington  
2 D.C. for the Federal Reserve Board, and originally Anna  
3 Alvarez Boyd and I were going to share the responsibilities  
4 today, but unfortunately, also due to travel problems brought  
5 on by not only weather, but mechanical issues resulting in a  
6 series of flight cancellations, Anna won't be able to be with  
7 us today. She regrets not being here and was truly looking  
8 forward to being with you.

9 I also want to thank, not only the OTS for  
10 coordinating today's hearing, but the tremendous efforts of  
11 Todd Greene and his extremely capable staff, as well as other  
12 staff of the Federal Reserve Bank of Atlanta for making  
13 today's arrangements. In particular, I'd like to mention  
14 Paige Dennard, Chevelle Wilson and Nancy Varella who worked  
15 very hard putting this together.

16 As was noted by John and Marty, this is the second  
17 of four hearings that the agencies are hosting on CRA  
18 regulatory modernization. The primary topics for today's  
19 hearing are access to financial services and meeting the  
20 needs of distressed and underserved communities, including  
21 rural communities. These topics are of particular interest  
22 to the agencies, and particularly to the Federal Reserve and,  
23 in fact, their importance has been at the core of our  
24 community affairs programs for many years; in fact, in the  
25 Fed's case back when our program was established in 1984.

14

1 There has been a long tradition of working with organizations  
2 and the industry to support and facilitate community

3 development, and to promote access to financial services for  
4 low and moderate income people and others. Our community  
5 investment center in San Francisco and our Bank-On programs  
6 in many cities across the nation, including Jacksonville and  
7 Tampa, are clear examples of the commitment that we all have  
8 now and in the future.

9 we look forward to listening to today's panelists.  
10 The diversity of views represented in this room today should  
11 help us gain a clearer picture of the issues and the  
12 interests we must consider as we embark on our task.

13 I do want to note that there are two panelists  
14 among our first group of presenters, Mr. Stegman and Ms.  
15 Ratcliffe, who contributed insightful papers to an effort  
16 spearheaded by the Federal Reserve Banks in Boston and San  
17 Francisco, as well as the Board, to capture some of the best  
18 thinking available on possible CRA modernization issues.  
19 Their papers were included in a publication that I would  
20 recommend to all of you. Your local Federal Reserve  
21 community affairs staff can help you get a copy of that  
22 publication. I'd also like to mention Mike Griffin is a  
23 current member of the Fed's consumer advisory council.

24 Thanks for letting me say a few words, and I look  
25 forward to today's hearing. Thanks.

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1 DIRECTOR BOWMAN: Beth Castro?

2 MS. CASTRO: Thank you, Director Bowman, and thanks  
3 to all who organized the hearing and who will participate  
4 today in our hearing.

5 The federal banking agencies are holding these  
6 hearings to hear your views on how we can better achieve the  
7 goals of the Community Reinvestment Act. The recently  
8 enacted financial reform legislation will also bring

9 significant changes to the nation's banking system. That  
10 legislation, along with the vast changes in the composition  
11 of the industry and how financial services are offered,  
12 suggests that now is a uniquely pertinent time to examine the  
13 CRA regulations. Although some of the changes that have been  
14 discussed in the CRA debate will require legislation, there  
15 are others that can be addressed by regulatory adjustments,  
16 and that is the purpose of this hearing today.

17 We look forward to the hearing and how we can  
18 update the CRA regulations.

19 Today's hearing will focus on several topics. The  
20 first, access to financial services, presents some  
21 particularly interesting issues in light of all of the  
22 changes in how both the industry and how financial services  
23 are delivered today. I look forward to hearing your views on  
24 this topic.

25 Of equal importance are other topics that we will

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16

1 be exploring today, such as the effectiveness of the small  
2 bank institution performance criteria and how CRA can best  
3 meet the needs of distressed and underserved areas, including  
4 rural areas, as well as regional concerns about CRA.

5 Previously our comptroller has underscored how CRA  
6 is an important bridge that unites banking customers, the  
7 banks themselves and their community stakeholders in  
8 successful community development partnerships. CRA supports  
9 banks doing what they do best and should support what they  
10 want to do well, that is making viable lending services and  
11 investment decisions in their own communities that are  
12 consistent with their business plans and with acceptable  
13 rates of return.

14 I welcome all of the businesses who -- all of the  
15 witnesses, excuse me, who are here today, and look forward to  
16 hearing your views and to learning more from the public  
17 comments on the topics and questions that the hearings cover  
18 today.

19 DIRECTOR BOWMAN: Thank you, Beth.

20 Marty, if we could have you mute your phone.

21 VICE CHAIRMAN GRUENBERG: Oh, okay.

22 DIRECTOR BOWMAN: We'd appreciate that.

23 VICE CHAIRMAN GRUENBERG: I will do that.

24 DIRECTOR BOWMAN: All right. Thank you.

25 Today's first panel is Janis Bowdler, the Deputy

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17

1 Director of Wealth Building, National Council of La Raza;  
2 Michael Stegman, who is the Director of Housing and Policy  
3 for the MacArthur Foundation; Janneke Ratcliffe, Associate  
4 Director, Center for Community Capital; Michael Griffin, who  
5 is a Senior Vice President for Key Bank; and Melissa -- and  
6 please excuse me if I mispronounce your last name -- Koide  
7 (pronouncing) --

8 MS. KOIDE: Koide (pronouncing).

9 DIRECTOR BOWMAN: -- Koide (pronouncing), all  
10 right, Policy Director for the Center for Financial Services  
11 Innovation.

12 And if I could, I would ask that each panelist will  
13 limit their remarks to five minutes. The timekeeper at the  
14 front, Nicola Kelly, will indicate when there is one minute  
15 remaining and when the time is up. Following your  
16 presentations, I will start the rotation of the questions  
17 among the principals. Each principal will also have five  
18 minutes, and if time permits, the principals will have a  
19 second round of questions. Since this event is being

20 recorded, we would ask that you speak into the microphone.

21 Thank you so much.

22 Janis?

23 MS. BOWDLER: Thank you very much. I'm excited to  
24 be able to kick off the discussion this morning.

25 My name is Janis Bowdler. I'm the Deputy Director

18

1 of the Wealth Building Policy Project at National Council of  
2 La Raza. For those of you that may not be familiar with  
3 NCLR, we are the nation's largest Hispanic civil rights  
4 organization in the country.

5 CRA leverages private investment towards a  
6 fundamental public policy goal, and that is the fair and  
7 equal distribution of banking services in all neighborhoods  
8 regardless of the racial, ethnic or income composition of its  
9 residents.

10 The focus of today's hearing is on leveraging CRA  
11 to improve access to financial services. But at the heart of  
12 this conversation is how to reestablish CRA as a compelling  
13 and dynamic force in this marketplace.

14 In my remarks today I will open with a couple of  
15 points about CRA modernization, and then I will focus on CRA  
16 exams as a tool to increase access to financial services.

17 It should probably go without saying, but just so  
18 we're all clear, the policy goals of CRA are still valid and  
19 high in demand from communities of color. Latino, immigrant,  
20 low-income and unbanked households face serious barriers to  
21 banking services, and without deliberate intervention these  
22 barriers will inhibit their financial progress.

23 The question is what is holding CRA back from  
24 achieving its purpose in totality? While there may be

19

1 already been mentioned in the discussion. CRA does not cover  
2 all financial institutions that are in the business of  
3 banking. Many of the banks are conducting business well  
4 beyond the walls of their branches, and therefore we are  
5 limited in the scope of a CRA assessment. And one issue that  
6 we're particularly concerned about, that is grade inflation  
7 which has made the CRA exam a less credible threat to  
8 underperforming institutions.

9           Yet the forces that set CRA in motion --  
10 discrimination and disparate treatment of neighborhoods --  
11 have rebounded in force. Communities once served  
12 predominately by banks have been inundated by retail dealers  
13 outside the scope of CRA: mortgage brokers and finance  
14 companies, subprime credit card providers, payday lenders and  
15 auto dealers.

16           The need for CRA is just as real today as it was  
17 three decades ago, and in that context, let me turn to ways  
18 in which the CRA exams could better leverage services to the  
19 unbanked. This is a particular issue to my community, Latino  
20 families, nearly half of which are un- or underbanked.

21           Families rely on a wide range of basic financial  
22 products, things like checking and savings accounts, debit  
23 cards, remittances, check cashing and starter credit, just to  
24 conduct their daily household business. Good products will  
25 help put families on a path to greater financial opportunity

20

1 and in the short term and in a time where the recession is  
2 really pressing, really all families, but particularly in



3 low-income communities and communities of color, good  
4 products are going to help them save money. However, most  
5 banks do not see these products or LMI consumers as highly  
6 profitable endeavors. Therefore, they don't invest in them  
7 heavily. In addition, CRA exams do not make basic banking a  
8 priority.

9 To address these issues in the regulatory context  
10 we recommend changes to the service and community development  
11 tests.

12 I'll start with the service test, which is the  
13 primary mechanism for evaluating basic banking services. As  
14 we -- I think it's already been alluded to in this hearing  
15 and in others -- because there's such a focus on physical  
16 branches, we're really missing ways in which banks and other  
17 companies are attracting their customers, so we need to start  
18 to look beyond that. So in addition to that, we need to  
19 collect robust data. Much of this data is already being  
20 collected by banks, it's just not being collected in the  
21 context of CRA assessment -- use that to create meaningful  
22 standards, and then give credit for banking services  
23 accessible by low income, underserved or non-bank customers,  
24 and this should be quantified and assessed the same way that  
25 we do with loans.

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1 An alternative strategy is to look at the community  
2 development test. There are many financial institutions  
3 that, for a variety of reasons, are not going to be able to  
4 meet all of the needs that the community has, so instead we  
5 can facilitate the delivery of services through institutions  
6 that have access and expertise.

7 So four principals for that, just quickly. An  
8 investment in another institution must be sizable enough to

9 allow the recipient institution to overcome and compensate  
10 for any gaps left by the investor. The investment in the  
11 banking services should be community driven. The exam  
12 criteria that would normally apply to the investor should  
13 also extend to whichever institution they're investing in,  
14 whether it be a community bank, credit union or private  
15 company. And lastly, investments should be graded on  
16 performance rather than mere presence of an investment.

17 we have additional thoughts on how these strategies  
18 can work together in harmony, but I'll save that for the Q&A.

19 DIRECTOR BOWMAN: Thank you.

20 Michael Stegman.

21 MR. STEGMAN: Good morning. My name is Michael  
22 Stegman. I am Director of Housing and Policy at the John D.  
23 and Catherine T. MacArthur Foundation. I speak today on ways  
24 to strengthen the CRA service test in my personal capacity  
25 and not on behalf of the foundation

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22

1 I am pleased to be testifying about the service  
2 test because I believe, as does the Vice Chairman of the FDIC  
3 and many others, that access to a basic bank account and  
4 financial services is a starting point for economic  
5 opportunity.

6 And on this score, banks are not doing very well.  
7 while from 1989 to 2009 the share of unbanked black and  
8 Hispanic families has fallen from about a third to a still  
9 high 21 percent; this compares to just 3 percent of all  
10 non-Hispanic white households. So, despite some progress, on  
11 a relative basis, there are still seven times more unbanked  
12 black and Hispanics than there are whites -- a minority  
13 achievement gap, I would argue, that should be as

14 unacceptable in financial regulation policy as it is an  
15 education policy.

16           These facts alone make a strong case for creating a  
17 more effective and a more performance-based service test.  
18 Add to this the likelihood that financial reform will usher  
19 in an era of lower leverage and more conservative  
20 underwriting standards that will require additional up front  
21 cash to buy a home, even for lower and moderate income  
22 families. And we know that accumulating savings is all the  
23 harder when one lacks a bank account.

24           while not arguing for a stronger service test, per  
25 se, the FDIC's 2008 study of banks' efforts to meet the needs

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23

1 of underserved populations supports such a case. while  
2 noting that most surveyed banks offer basic checking  
3 accounts, the survey still found major gaps in their product  
4 offerings. Said FDIC, and I quote, "few offer deposit,  
5 payment, credit, and electronically based products that  
6 address the unique needs of unbanked and underbanked  
7 customers."

8           According to the report, as is true with much  
9 related research on the topic, lack of profitability  
10 continues to be banks' greatest defense of this collective  
11 lackluster record.

12           The debate about profitability and long-term  
13 revenue potential of first-account products has been with us  
14 as long as the argument that unbanked and underbanked persons  
15 are better served and more satisfied with their dealings with  
16 non-banks, such as payday lenders and check-cashers, than  
17 they are with banks. I remain unconvinced by both arguments,  
18 which leads to my two most important recommendations for how  
19 to strengthen the CRA. while these would require new

20 legislation, I should remind you that my written testimony  
21 that I submitted earlier in the week contains several  
22 recommendations for strengthening the service test that could  
23 be implement under existing law.

24           Returning to the lack of profit argument, I really  
25 don't believe that policymakers have sufficient, reliable

24

1 data on the economics of account products and services to  
2 effectively regulate this area of activities. While there is  
3 more solid evidence confirming underserved populations'  
4 greater satisfaction dealing with non-banks, caution is  
5 warranted in interpreting these data as well. This is  
6 because these surveys compare preferences and transparent  
7 prices of non-bank products against an inadequate menu of  
8 poorly designed mainstream banking products that are embedded  
9 in a far more opaque, and in many cases, anti-consumer  
10 pricing system.

11           I propose two actions to address these problems.  
12 The first is an independent audit of the cost and revenue  
13 structure of transaction accounts and savings products  
14 offered by large banks. The goal is to identify the costs  
15 and revenue structures of basic account products and  
16 services, operating margins, the presence of scale economies,  
17 and sensitivity of indirect cost allocations on product  
18 profitability analysis, and so forth.

19           The second proposal is to create an independent  
20 institute for Financial Innovation Research and Evaluation.  
21 This nonprofit entity would be modeled after the  
22 internationally recognized MIT Poverty Action Lab, which uses  
23 rigorously designed randomized evaluations to answer  
24 questions critical to poverty alleviation across the globe.

25

1 the efficacy, effectiveness, and economic sustainability of  
2 innovative financial services, technologies, platforms,  
3 delivery channels, and marketing strategies in meeting the  
4 needs and preferences of unbanked and underbanked  
5 individuals.

6 who should pay for this? CRA-covered  
7 mega-institutions should pay for it as a partial way to  
8 discharge a new CRA overlay responsibility that I would  
9 impose upon them called a "Duty to Lead."

10 Today, America's 10 largest CRA-covered  
11 institutions have aggregate deposits of more than \$3  
12 trillion, and a combined market share of 45 percent. Not  
13 only should this top tier of America's banks have an  
14 obligation to meet the credit needs of their communities as  
15 the CRA currently requires, but they should have an  
16 additional duty to lead the financial services industry in  
17 the development, testing and commercialization of innovative,  
18 affordable, and sustainable account and credit products  
19 serving low income families and underserved communities.  
20 Such an overlay over existing regulatory requirements has a  
21 precedent in the federal regulation of the GSEs.

22 Thank you.

23 DIRECTOR BOWMAN: Ms. Ratcliffe.

24 MS. RATCLIFFE: Thank you, Director Bowman and  
25 other regulatory agencies for inviting me to share thoughts

26

1 on the Community Reinvestment Act, particularly the service  
2 test. I am Janneke Ratcliffe, Associate Director at UNC

Your review comes at a critical time, as our financial system is being rethought, and communities and families trying to rebuild. Today, as in 1977, the hope is that CRA can foster a more inclusive path to financial opportunity that strengthens all of our communities.

The role of the Act in mortgage lending has received much attention. Ample evidence shows that, while the broader market pursued reckless practices, CRA loans remained a constructive source of credit for low income and minority families. Mortgage lending is not the only test, but it and small business lending are dominant evaluation factors because access to such productive capital is critically important for communities to flourish.

But building financial opportunity from the ground up doesn't begin with home ownership. CRA encourages banks to meet the need for credit services as well as deposit services, thereby recognizing that basic financial services are the gateway to other opportunities.

If that is true, then we have a problem. As you know, a recent FDIC survey finds a quarter of U.S. households un- or underbanked, including 54 percent of black and 43 percent of Hispanic households. Nearly one in five lower

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income households does not have a bank account at all. Further, between 35 and 70 million Americans lack sufficient credit history to determine a credit score. For such individuals, reliance on alternative financial services adds costs and handicaps one's chance of achieving greater financial security.

Yet, from the ratings on CRA tests, it would appear that our banks are meeting the credit needs of the

9 communities just fine. In the prior two years, 98 percent of  
10 large banks rated satisfactory or better, and rejections of  
11 bank applications on CRA grounds are extremely rare.

12 Consider Charlotte, in this region, where Wachovia  
13 and Bank of America hold 92 percent deposits and both  
14 received outstanding ratings on their 2006 service test.  
15 Yet, in this banking city, 37 households -- 37 percent of the  
16 households are un- or underbanked, above the national  
17 average.

18 We can only conclude that the service test must be  
19 measuring the wrong thing. It is time to find a new approach  
20 and we offer two recommendations.

21 First, better assessment tools. In 1989, the  
22 passage of FIRREA advanced the public availability of both  
23 CRA ratings and HMDA data. Today HMDA provides information  
24 on access to and quality of mortgage credit that's widely  
25 used by community advocates, researchers, policymakers, and

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1 the industry itself, and it allows for a data-driven mortgage  
2 lending test.

3 In contrast, the CRA service test is very  
4 subjective. This subjectivity creates an opportunity for  
5 grade inflation, as described in the research by Michael  
6 Stegman. The most tangible element in the test is review of  
7 the distribution of branches and ATMs across socioeconomic  
8 neighborhood status for randomly selected markets.

9 Branch presence is important for serving  
10 communities, but in and of itself does not mean the needs are  
11 being met. Imagine on the mortgage side if all we knew was  
12 whether a lender had offices located in LMI census tracts,  
13 but only for some markets for that lender, only for some

14 years. And imagine we had to get that information in  
15 narrative form by going through each lender's examination.  
16 what could we possibly discern about the provision of  
17 mortgage loans to lower income and minority households?

18 A more quantitative service test could -- to quote  
19 or paraphrase it -- "determine whether depository  
20 institutions are filling their obligations to serve the  
21 financial services needs of the communities and neighborhoods  
22 in which they are located."

23 Our second recommendation is to better address the  
24 needs of the community using a consumer-centered view.  
25 underserved consumers needed low cost bank accounts; they did

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1 not need checking accounts that are advertised as free, but  
2 with built-in snares that had those with the least disposable  
3 income cross-subsidizing checking accounts for the rest of  
4 us. They need low cost savings accounts, not accounts where  
5 the monthly fees far outweigh the interest that can be  
6 earned.

7 In an FDIC survey of banks, less than 18 percent  
8 identify expanding services to the un- and underbanked as a  
9 priority, and most have undertaken no research on this  
10 potential opportunity. But there is extensive research  
11 available into what underbanked and low income people want in  
12 transaction accounts. We could also look to the nonprofit  
13 and community-based financial institutions as a further  
14 source of insights.

15 Research also tells us that the needs go beyond  
16 accounts, mortgages and business loans. One of the clearest  
17 needs is for small consumer loans, provided they are  
18 responsible, transparently priced and repayable. Today,  
19 consumer lending is a minor element in the evaluation, and



20 should be given more weight.

21 In closing, I encourage you broaden the service  
22 test through incorporating the community perspective in  
23 defining credit needs and to collect more quantitative data  
24 to determine how well those needs are being met.

25 Thank you for your attention, and I will be pleased

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1 to answer any questions.

2 DIRECTOR BOWMAN: Thank you.

3 Mr. Griffin?

4 MR. GRIFFIN: Good morning and thank you for the  
5 opportunity to testify today about access to financial  
6 services. As has been stated, my name is Michael Griffin. I  
7 serve as the Senior Vice President for Community Development  
8 for Key Bank, and I must say as the only practicing banker on  
9 the panel, I feel a little out of place.

10 In my current role I'm responsible for the bank's  
11 CRA compliance program and asset management of our community  
12 development investments. In this position I have been very  
13 involved in the development and implementation of Key's  
14 significant outreach to the unbanked and the underbanked.  
15 We've been privileged to work with some of the organizations  
16 and individuals on this panel as we've pioneered this effort.

17 Over the past six years Key's KeyBank Plus Program  
18 has rolled out in 230 branches across nine of our districts  
19 throughout the Midwest, Northeast, Rocky Mountains and the  
20 Northwest. You'll notice all of those are cold weather  
21 areas, we don't get into anywhere where it's sunny.

22 (Laughter)

23 Through this program we provide many basic banking  
24 services, including check cashing for non-depository clients

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1 explore all of their options as they choose how to manage  
2 their finances. Since its inception we have enrolled 38,000  
3 clients as check cashing clients and cashed over \$130 million  
4 worth of checks with minimal losses.

5 we initially pursued this course in response to the  
6 needs identified by 25 percent of our branches across our  
7 footprint that are located in low to moderate income areas.  
8 we recognize that these branches are not primarily in  
9 competition with other bank branches, but rather they're  
10 competing with nontraditional financial service providers.

11 In 2004, we initiated our check cashing for  
12 non-depository clients at a rate lower than the surrounding  
13 check cashing companies. we did not do this with the intent  
14 of becoming a major long-term check-casher, but more with an  
15 eye to removing one of the hurdles we had identified with  
16 clients to develop a relationship with a bank. Two of the  
17 hurdles we had identified were clients distrust of banks in  
18 general and the confusion and distrust of the pricing of the  
19 primary product offered to entry level clients: the checking  
20 account. If we could offer a product the clients knew and  
21 price it similar to how other providers did we hoped they  
22 would at least cross the threshold of a bank, and over time  
23 recognize that the staff reflected who they were and were  
24 people from the neighborhood who wanted to serve them. Over  
25 time through financial literacy opportunities we hoped they

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1 would learn of other opportunities available to them to  
2 manage their finances. And I want to emphasize first, it's

3 always about choice. Banks can develop and have developed  
4 free -- and we can discuss what free means -- products, but  
5 the reality is that it may not be a product people want to  
6 use, so I think we all need to recognize that as we approach  
7 this market.

8           Since its inception the Key Bank Plus Program has  
9 grown to offer a variety of affordable services targeted to  
10 this population, including a card based checking account that  
11 does not allow overdrafts, a small overdraft line of credit  
12 for clients who don't qualify for the mass market line, free  
13 money orders, and in addition we have developed a significant  
14 focus ensuring that families claim their EITC benefits in a  
15 low cost manner, primarily avoiding paid providers. We offer  
16 additional services with many more in development, including  
17 a small short-term loan product to responsible, I'll put in  
18 there, responsibly priced product that we currently have in  
19 development.

20           I offer all of this information, not just to  
21 highlight the good work that we have done, but to draw  
22 attention to how all of this work gets credit in the CRA  
23 exam. As we all know the service test is 25 percent of the  
24 grade. In addition there is a generally accepted guideline  
25 that 80 percent of the service test is based on branch

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1 placement. This means that all of the additional items,  
2 beyond branch placement, that could provide credit make up  
3 less than five percent of the overall exam. Five percent for  
4 board services, financial literacy efforts, loan modification  
5 programs, development of products serving underbanked and  
6 unbanked and all other community development services  
7 combined. Given the cost and staff focus it takes to develop  
8 new products, particularly in this current regulatory

9 environment, it's hard to justify this effort by its weight  
10 in the CRA exam.

11 In order to ensure that these community development  
12 services receive credit, they deserve a new method that must  
13 be devised to give them more weight. Whether this is part of  
14 a new community development test, or separate from the  
15 current free test, or it's an explicit recognition of the  
16 existing service tests that these activities should be given  
17 more weight, something needs to change.

18 While Key sees these activities as important for  
19 tracking this segment of the market and serving our  
20 community, given their not always stellar profitability from  
21 these combined activities, it makes them difficult to justify  
22 solely from a cost benefit point of view. To truly  
23 incentivize these activities some reworking of the service  
24 test will be needed. Thank you.

25 MS. KOIDE: Good morning. Thank you for the

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1 opportunity to be here this morning to discuss the Community  
2 Reinvestment Act review.

3 My name is Melissa Koide, and I am the policy  
4 director of the Center for Financial Services Innovation.  
5 CFSI is a renowned as a national nonprofit organization  
6 providing leadership, research, and insights on the financial  
7 services needs of underbanked consumers.

8 Over a decade ago many policymakers and thought  
9 leaders believed that access to bank accounts was the missing  
10 ingredient that, if present, would lead to increased  
11 financial stability for low and moderate income consumers.

12 While that assumption was not completely wrong, we  
13 have since learned through extensive research over the past

14 decade -- many of my colleagues here have cited some of it  
15 -- that there is -- that the financial lives of low and  
16 moderate income consumers are just as complex as the middle  
17 and upper income households. we've learned some really  
18 important facts.

19 First, 21 million consumers who already have a bank  
20 account are nevertheless using nonbank financial services in  
21 a variety of ways. Second, we know that these consumers  
22 often elect to use these nonbank financial services even when  
23 a bank is in close proximity to that provider. And even  
24 though these choices may seem uneconomical when compared to  
25 the alternatives, they may not necessarily be if you consider

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1 the overdraft charges oftentimes that we've seen with the  
2 bank products. Moreover, many of these services offer a  
3 transparency, reliability, a convenience, as well as  
4 liquidity and ease of use that can far outweigh what may seem  
5 like disproportional costs.

6 But we also know that no matter what their  
7 attractive features, these products often come with high  
8 costs either directly through fees on the products themselves  
9 or indirectly through the structures of the products. And  
10 finally, we know that banks themselves have not typically  
11 developed affordability priced financial services for this  
12 consumer segment.

13 There are, however, promising transaction, savings,  
14 and small dollar credit products that banks are offering  
15 directly and indirectly that benefit consumers and that offer  
16 sustainability for the providers.

17 For example, millions of consumers across the  
18 country are using prepaid debit cards. While the bank isn't  
19 necessarily directly interfacing with the consumer, the bank

20 is playing a very essential role in providing the cards,  
21 issuing the products, holding the cardholders' monies, as  
22 well as extending some very important consumer protections to  
23 the consumers through that role.

24 Access to safe and affordable small dollar credit  
25 is a pressing financial services need that really warrants

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1 and develops focused CRA attention. There are some great  
2 examples of banks that are providing direct to consumer  
3 credit, as we saw through the FDIC's small-dollar loan pilot.

4 However, to significantly expand the availability  
5 of good loans at a scale that can truly affect market price  
6 and competition, it may be as important for banks to play  
7 indirect roles in providing the services. As examples, banks  
8 can provide capital to responsible small dollar lenders, thus  
9 enabling those lenders to expand and grow their business and  
10 expand the availability of good products. Banks can also  
11 develop and distribute responsibly designed loans through  
12 intermediaries, including employers and national and local  
13 nonprofits.

14 More now than ever there is a policy imperative to  
15 change the CRA to reward banks for meeting the financial  
16 services needs of consumers with products that are safe,  
17 affordable, sustainable, and credit building where  
18 appropriate. We have three recommendations to that goal.

19 First, we believe the CRA should reward banks  
20 directly and indirectly for meeting the financial services  
21 needs of this consumer base. This can be achieved by  
22 strengthening and adding weight to the service test and by  
23 offering banks a new enhanced or dedicated strategic plan  
24 option that -- for those institutions that would like to

1 particular services.

2 Under this type of dedicated strategic plan option,  
3 banks would set out multi-year goals, what their resources  
4 are, what their strategies are, and what their capacities are  
5 for meeting the financial needs of the consumers they're  
6 serving. And with that multi-year time frame, it would  
7 encourage banks to test new products, new delivery channels,  
8 technologies, financial capability tools and delivery  
9 channels in order to really meet these consumers' needs.

10 Banks that opt for this plan would still be  
11 required to present their lending and investment activities  
12 in their assessment areas. And like the strategic plan  
13 option that currently exists today, the plan would include  
14 measurable annual goals by which these banks would be  
15 assessed, as well as a public comment period.

16 Our second recommendation is that banks are given  
17 credit for financial services that are quality products that  
18 are safe and affordable. Encouraging banks to serve these  
19 consumers without taking into account quality of services can  
20 lead to bad results for the consumers, for the industry, as  
21 well as for the economy at large.

22 Accomplishing this goal is in part a matter of  
23 examiner training and judgment against a set of standards  
24 that will take time to develop.

25 Bank regulators have access to data about these

1 products that banks are offering. That information could be  
2 used in order to assess whether or not credit is warranted.

3 We also suggest that the CRA regulators work very  
4 closely with the Consumer Financial Protection Bureau. This  
5 Bureau will have a substantial role in understanding the  
6 product offerings in the marketplace. Ideally those  
7 responsible for CRA and the CFPB would coordinate and share  
8 data and learnings and identify strategies and policies to  
9 increase low and moderate income consumers' access to safe  
10 and affordable financial products and services.

11 Our third recommendation is to ensure that CRA is  
12 responsive to the changes in the financial services  
13 marketplace. It is essential that banking regulators  
14 continue to reflect and calibrate the regulations and the  
15 examination practices to maximize CRA's strength and  
16 responsiveness to new developments and technology and product  
17 innovations and new information about consumers.

18 Thank you.

19 DIRECTOR BOWMAN: Thank you very much.

20 We will now move to the second phase where I will  
21 start off a round of questions for the panel. The panelists  
22 are to limit ourselves, as well, to five minutes each. At  
23 the conclusion of the first round, if we have time remaining,  
24 we will go into a second round of questions.

25 My first question is to all the panelists. Given

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1 the availability of alternative delivery mechanisms, should  
2 less emphasis be placed on branch location and more emphasis  
3 on institutions delivery of affordable products, and to get  
4 away from an easy -- sort of a high inside fastball here, let  
5 me sort of add a second part, which is -- how would we, as  
6 the regulators, go about measuring and incorporate those  
7 changes into our ratings?

8 Ms. Bowdler? You only have five minutes.



9 MS. BOWDLER: Okay. I knew there was going to be a  
10 problem with sitting in the first chair here.

11 (Laughter)

12 A couple of thoughts, because the time is short and  
13 I do talk about some of this in my written statement, our  
14 view is that business -- that there should be evaluations  
15 wherever business is conducted. And so, to the extent that  
16 companies or banks are soliciting deposits online or via  
17 agents outside of their branch area, that we should be  
18 incorporating and looking at that.

19 I want to note that branches play a very important  
20 role for Latino families, for immigrant families, when  
21 they're done really well, as it sounds like some of the  
22 examples that we heard from Mike. They can really be  
23 touchstones for the community to get a lot of questions  
24 answered. But just the presence of a branch is not an  
25 indicator of quality service, and so both the emphasis that

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1 we put on branches, evaluating the branch needs to change,  
2 and we need to look beyond the branch to anywhere that that  
3 banker thrift is doing business.

4 DIRECTOR BOWMAN: Mr. Stegman?

5 MR. STEGMAN: I think the short answer is yes, we  
6 should put less evidence on it. Michael made an interesting  
7 point. The 80 percent -- I don't know if that's teaching to  
8 the test, I don't know if that's because that's the area of  
9 financial services that we can count and that if what we  
10 measure we invest in.

11 So I think we need to focus on outcomes and we have  
12 to know more about the extent of low income and underserved  
13 accounts in the geographies in which the banks operate. Now,

14 we can't do it on a loan by -- an account-by-account basis  
15 because we don't have the income, but we do know what  
16 percentage of an assessment area is low and moderate income.  
17 we ought to know what kind of account flow is coming from  
18 those places and whether it's through hard branches or cell  
19 phone based technologies or alternative smart ATMs, whatever.  
20 The question is, how well is the institution doing in meeting  
21 the service needs of its population, and so I do think that  
22 we have to measure more.

23 MS. RATCLIFFE: Thank you. I guess it would be  
24 really helpful to have some evidence as to the extent to  
25 which these alternative delivery systems are actually

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1 bringing in more LMI account holders, or whether actually  
2 they're serving more higher income clients, and the prepaid  
3 debit card is one example where we probably see more of the  
4 former, but I think some of these other channels are not  
5 necessarily being utilized to their full capacity, much like  
6 a branch might not be, to serve the community. So I think  
7 before -- yes, I agree with everything that has been said  
8 before me, that measurements are key, but I would like to  
9 start by understanding how these alternative delivery  
10 mechanisms are serving the CRA service objectives today and  
11 then build tests around that.

12 MR. GRIFFIN: I guess I would say I'm somewhat  
13 reluctant to say to have a de-emphasis of branch placement,  
14 just because of having worked for community development  
15 corporations prior to coming to the bank, having a branch in  
16 the neighborhood matters. Having some banking services there  
17 matters.

18 So I guess what I'd like to see is not sort of a

19 zero sum game, but sort of a -- somewhere else a boost in the  
20 additional services that are being provided, so either expand  
21 the service test in percentage of that or have some overlying  
22 community development test. And as far as how to measure it,  
23 I guess my general view is, you take the products that  
24 everyone agrees serves the unbanked, the underbanked, and  
25 look at the take up on that product by MSA, as we currently

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1 look at everything else for the CRA exam.

2 MS. KOIDE: I think I generally agree with  
3 everything my colleagues here have said. I think it's a  
4 tough question because I think you do have to pause and  
5 reflect on the type of institution and the way in which that  
6 institution is offering transactions, savings, small dollar  
7 credit products. It's not a cookie cutter approach to this  
8 by any means, and so you've got to be able to build in some  
9 of that flexibility to respond when it is a local bank that  
10 clearly is doing this through their branches, you want to  
11 really value that through the CRA.

12 I would also say though that when it comes to  
13 thinking about capturing more information and measuring, one  
14 of the really important questions that we don't have answers  
15 to is what are the longer-term implications of using some of  
16 these products and how long do consumers use these products,  
17 so.

18 DIRECTOR BOWMAN: Good. Thank you. My time is up,  
19 but I will be following up if we have a second round.

20 Now, we've both talked about branches, we've talked  
21 about the limited impact of some of those branches, and I'd  
22 like your ideas in terms of, if you don't do away with  
23 branches how do you get better penetration, if you will, into  
24 some of these communities, and alternative delivery

25 mechanisms may be one way.

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1 with that, I'll turn it over to Vice Chairman  
2 Gruenberg.

3 VICE CHAIRMAN GRUENBERG: Thank you, John, and  
4 thank you to all of the witnesses for their testimony.

5 Let me follow up on a question that John raised  
6 which is this issue of branch location and the way branch  
7 location versus other services. It may well be the central  
8 issue here, and I do think Mr. Griffin in his testimony  
9 framed the issue when he indicated that 80 percent of the  
10 services test currently is based on branch placement compared  
11 to the demographics of the MSA.

12 I gather there is agreement among the witnesses  
13 that currently disproportionate placement placed on branch  
14 location, not that branch location is not important, but that  
15 card services test perhaps places too much weight on it and  
16 does not give sufficient attention to the actual services  
17 being provided at the branch location and the appropriateness  
18 of those services. If I could just ask quickly, is that view  
19 generally shared by our witnesses?

20 VOICES: Yes.

21 DIRECTOR BOWMAN: They are all shaking their heads  
22 in the affirmative.

23 VICE CHAIRMAN GRUENBERG: If that's the case, I  
24 would be interested in your thoughts, if we're going to look  
25 at other services that are actually offered at the branch,

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1 beyond the actual location in the neighborhood, do you have a  
2 set of priorities in terms of the services that should be

3 made available in the communities? I'd be interested in your  
4 thoughts if you're going to look at the services test and  
5 perhaps give greater weight to the services provided beyond  
6 the location of the branch, looking at the branch's services  
7 that could be offered, if you had to identify the one, two,  
8 or three key services that you would like to see, I'd be  
9 interested in your thoughts if you could identify any  
10 priorities, if we could just ask the panel their thoughts on  
11 that.

12 DIRECTOR BOWMAN: Mr. Stegman, why don't you start  
13 it off?

14 MR. STEGMAN: In my brief remarks I made some  
15 comments about alternative satisfactions with kind of nonbank  
16 services, and I hesitate to start there, but let me just say  
17 there are a range of related services that nonbanks provide  
18 customers in these areas that bring the customers to the  
19 places, whether they're places to pay rent, bill paying, --  
20 in New York, paying traffic tickets -- I don't want to  
21 recommend lottery sales, but that does bring a lot of traffic  
22 to these places, in addition to check cashing and so on. But  
23 ultimately, if these are ancillary services the good products  
24 have to be there, so we have to have responsive, you know,  
25 affordable mainstream services as well, but there are these

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1 other services that really bring a lot of folks to these  
2 nonbank providers.

3 MS. RATCLIFFE: So, I think this ties nicely to the  
4 first question because I think it highlights some of what  
5 maybe is a false dichotomy between do we look at branch  
6 location versus other services, and I think part of that  
7 problem comes from the fact that we have been, in the service

8 test, measuring inputs as opposed to outcomes, so in my  
9 comments I talked about the importance of measuring outcomes.

10 And so, for example, you might measure the --  
11 identify, say, bank account provision across a census tract  
12 address of the account holder, something like that, and start  
13 measuring outputs instead of inputs -- or outcomes instead of  
14 inputs, and that way I think we can move a little bit away  
15 from how much weight should we give the branch distribution.  
16 If you're focusing on, are people actually getting accounts  
17 and getting the services they need, than the branch -- where  
18 is the branch location becomes a little bit more of a  
19 secondary step in getting there.

20 And then in terms of the other services of  
21 importance, clearly good savings accounts that really do  
22 enable asset building and, I think, small dollar credit, as  
23 I've mentioned in my comments.

24 MR. GRIFFIN: I'm a little reluctant to specify  
25 products just based on, different banks have different

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1 approaches, certainly. But certainly the savings -- I mean,  
2 I think, as a lot of us have learned over the last many  
3 years, providing credit is not always necessarily the best  
4 first option for folks who are having financial challenges.  
5 So, certainly some sort of a savings and asset building  
6 component, and a lot of that can be supported through  
7 regulation and certainly legislation.

8 And, you know, after that -- I mean, all of the  
9 things I think we've talked about. Certainly check cashing  
10 is an important product that's a gateway product for people;  
11 remittances that are certainly important for a certain  
12 segment; bill payment, as Michael said, certainly is  
13 something that attracts folks in. But the reality is, a lot

14 of those are already offered by a lot of banks, you know, a  
15 lot of banks have remittance, have, you know, Moneygram or  
16 whatever in their branch, they all -- almost all have some  
17 sort of a low cost savings product.

18 I think the question for banks and for regulators  
19 also is, how do we encourage -- I mean, we're taking the  
20 approach, if banks offer it, folks will come in. I guess the  
21 other point is, how do we encourage customers to come into  
22 banks? There is definitely a barrier oftentimes with a bank.

23 Either people have had bad experiences themselves, or don't  
24 see banks as someone who want them as clients. So we both  
25 have to offer the product, but we also have to figure out,

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1 how do we get people to come into a bank and see them as  
2 their first choice provider for financial services.

3 MS. KOIDE: So I -- at the end of the table, do  
4 agree with --

5 DIRECTOR BOWMAN: Actually, there's one more, so.

6 MS. KOIDE: Oh, yes, Janis.

7 So I go back to my remarks. I mean, I think in  
8 some cases where banks are well positioned to be offering  
9 direct transaction and savings account products to consumers,  
10 that's really valuable and they should be doing it. We've  
11 done some research on small dollar credit needs and have just  
12 found really high need for access to these products, so I  
13 think that should be high on the list of the regulators as  
14 you think about the services test and how those needs can be  
15 met.

16 But then I also think you do have to, in  
17 considering the variety of ways in which these products get  
18 delivered, that it's not always necessarily the bank that's

19 going to be the front facing entity providing these services.

20 Again, there may be the bank that's behind some of these  
21 responsible providers who could be making those services  
22 available.

23 And then also, I would say where we see some really  
24 exciting innovations happening are these electronic account  
25 options, like the prepaid cards, where you're actually adding

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1 on savings features to these products, so those kinds of  
2 products really should be paid attention to as well.

3 VICE CHAIRMAN GRUENBERG: Thank you.

4 MS. BOWDLER: Oh, I'm still here, Marty. I'm going  
5 to offer a couple of comments as well. This is Janis. I got  
6 rotated out of the hot seat, and so now I'm batting cleanup.

7 (Laughter)

8 Just a couple of quick thoughts. I agree with the  
9 things that were said so far, but I also -- I think it needs  
10 to be a very community driven process. I think it's likely  
11 that you could see demand for products and what the community  
12 actually needs vary considerably market-to-market. So I also  
13 hesitate to put out a top three of specific products.

14 I also -- I want to emphasize two things. One is a  
15 comment that Janneke made earlier about technology and who it  
16 is attracting. In thinking about the technology that's going  
17 to attract the LMI consumer, I often have told banks that  
18 while they're doing really great on mobile banking and  
19 internet banking, I don't know that that gets you to your LMI  
20 consumer. Rather, cell phones is probably a better  
21 investment and thinking about how that is going to bring  
22 people into the bank.

23 And then the last thing is thinking about how we



24 can prioritize -- or quantify collaboration. Remittances is  
25 a good example. You could see a case where there is a huge

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1 community need for remittance products, but perhaps the  
2 actual volume in that market is too low. Not every bank is  
3 going to offer a remittance product. But how can  
4 institutions be investing in one another to leverage to make  
5 sure that that service is there and thinking creatively about  
6 that, and there are a dozen other examples of this kind of  
7 scale versus access. But I think we need to think about that  
8 as well in making sure that the needs are covered across the  
9 entire market, not just that every bank is offering a product  
10 to meet every single need, because I just -- I don't think  
11 that that's going to be realistic.

12 VICE CHAIRMAN GRUENBERG: Thank you very much.

13 DIRECTOR BOWMAN: All right. Tim Burniston?

14 MR. BURNISTON: Thanks. I have a couple of  
15 questions. They're not quite as in depth as John or Vice  
16 Chairman Gruenberg's, but maybe similar.

17 Could you guys just share any thoughts you have on  
18 what you actually think the weighting of services should have  
19 in determining the CRA rating? All of you touched upon -- or  
20 some of you touched upon the issue about how much weight  
21 within a test branches have and that sort of stuff, and I  
22 think there were some comments made about weighting the --  
23 weighting services more on the CRA evaluation. I guess part  
24 of what we would have to think about is what does more mean,  
25 and also think about the affect that that has on other things

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1 that would also need to be -- or should be considered as part

2 of the CRA rating.

3 MS. RATCLIFFE: I guess I'll go, keeping the  
4 batting order going.

5 DIRECTOR BOWMAN: The rotation.

6 MS. RATCLIFFE: I'll jump in with the fact that  
7 until there's a better test, I don't necessarily know that I  
8 would give it a whole lot more weight. Mike's research has  
9 demonstrated, and it still holds true today, that the  
10 subjectivity of the current service test allows it to be, you  
11 know, vulnerable to -- it uses grade inflation. And so I  
12 think back to my points that I keep pounding, the robustness  
13 of the test should be improved and then there might be  
14 discussion of what weight it should have for different tiers  
15 and categories.

16 I do think for some of the maybe rural and smaller  
17 banks, or intermediate sized banks, the service aspect has  
18 somewhat gotten buried, I think, in the combined test and so  
19 there might be a way to make that more tangible as well.

20 MR. GRIFFIN: I guess I would say I haven't thought  
21 about the specific percentages. I guess I've more thought  
22 about if you left the service test sort of as it is and had  
23 an overall overlaying community development test that took  
24 sort of community development lending, community development  
25 investment, and the community development -- you know, these

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1 other services together, you know, sort of overlay that over  
2 sort of the nuts and bolts of the existing CRA.

3 I'm also going to take the chance, I just keep  
4 hearing grade inflation and every time I hear it I sort of  
5 cringe. I know that's a widely held belief that there is  
6 grade inflation, and I guess -- I don't know about specific

7 other institutions, but I guess the thing I keep coming back  
8 to is we're talking about how to encourage banks to do more  
9 of x and more of y when there is no difference between a  
10 satisfactory and an outstanding. Doing that extra, there  
11 isn't much encouragement there, except for the attaboy or  
12 sort of the self -- good feelings a bank has about itself.  
13 There's nothing -- additional benefit to get the outstanding  
14 rating. So something. It doesn't have to be huge, but  
15 there's got to be some additional recognition that a bank has  
16 gone above and beyond just getting by and has done that  
17 additional effort, so. I don't know what it is, lots of  
18 possibilities out there, but something's got to be done to  
19 give banks the credit for that outstanding rating.

20 MS. KOIDE: So, I would say that, given that we  
21 know there's been research done to show what the savings is  
22 to the consumer if they're accessing a low cost transaction  
23 product, given that we know savings is an essential step for  
24 short-term emergency needs as well as starting to build  
25 longer term wealth building and savings opportunities, and

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1 given that we know how important credit history is and good  
2 credit scores are, I think that the services test really does  
3 deserve more attention, which is what you've seen reflected  
4 in my remarks.

5 I do come back to this need around flexibility.  
6 For those institutions that this is their primary strategic  
7 line of business or one that they really want to be pursuing  
8 further, they really should have the flexibility then in  
9 order to design a plan, a five-year trajectory on what  
10 they're going to be doing in order to meet those consumers'  
11 needs. I don't have an exact number to give you on how much  
12 more the service test ought to count under the CRA, as it's

13 currently designed. I think, though, that recognizing that  
14 we've got to give more weight to it, and giving more of the  
15 banks who are thinking about really going after this consumer  
16 segment the latitude to do it, to do it smart and  
17 thoughtfully reflecting where consumers are, is a real value.

18 MS. BOWDLER: So I'll go ahead and take a stab at  
19 throwing out numbers. So I have heard it recommended to  
20 shift the test one-third, one-third, one-third, as that is  
21 -- I would say the jury is still out on that because I am  
22 not totally sure what that will do to mortgage lending, but I  
23 think we're open to thinking about that sort of one-third,  
24 one-third option. And what I think would make the difference  
25 and would make sure that we don't do anything to detract away

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1 from the mortgage side, which obviously is critical -- and we  
2 think it's critical -- is making sure that the test is  
3 rigorous enough that every point counts.

4 And then we also recommend an overlay of a  
5 strategic plan, but I don't -- I take away the optional -- of  
6 really mandating a strategic plan, again, giving the  
7 flexibility that they're going to -- that a bank is going to  
8 devise its own business plan around these sorts of things,  
9 and they're going to make choices of whether they want to be  
10 primarily in one game or the other, or if they want to be in  
11 all of them. But, if every point counts on the test, then  
12 shaking up that distribution shouldn't cause one to suffer  
13 over the other.

14 MR. STEGMAN: I have written that I would consider  
15 giving institutions some flexibility between the services  
16 test and the community -- and the investment test. There  
17 were -- there was some evidence that banks were having a hard

18 time really meeting the requirements of the investment test,  
19 as it was kind of narrowly defined, and that I would allow  
20 them -- those institutions to reduce the credit for the  
21 investment test and increase it, that is, kind of toggle  
22 between the investment test and the services test, that is,  
23 put more emphasis on the services, if in their marketplace.  
24 Now, with a national, kind of global coverage, I'm not sure  
25 that the difficulty meeting the investment test is that

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1 great.

2 I would also point out, if we made specifically the  
3 small consumer loan kind of issue part of the service test  
4 and really measured that, it would certainly warrant -- it  
5 seems to me -- considering increasing the weight of that  
6 test. If the small consumer loan product gets inserted into  
7 a broadened community development test, I would then leave  
8 the service test alone. I would reallocate some of the  
9 services that currently are counted on the service test that  
10 have more to do with mortgage lending, mortgage counseling  
11 and all of those kinds of things -- which I think really  
12 belong in either a community development test or a lending  
13 test -- and make the community development services that are  
14 part of the services test really focus on financial services,  
15 small dollar credit and so on.

16 DIRECTOR BOWMAN: Ms. Castro?

17 MS. CASTRO: I have a couple of questions. One is  
18 about the strategic plan option. Currently very few banks  
19 opt for the strategic plan type of option, so under the new  
20 suggestion of a consumer financial services strategic plan --  
21 I think Ms. Koide had mentioned that -- I guess my question  
22 would be how might that have -- how might that have different  
23 results? In other words, it's optional now. I think you've

24 recommended that it be optional, and so how might you  
25 envision it becoming more advantageous for banks to take

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1 advantage of that and to do that?

2 MS. KOIDE: So we thought about this option when  
3 considering more broadly the variety of ways the banks are  
4 playing in providing services in looking at the nonbank  
5 sector and the bank sector. And wanting to effectively use  
6 the CRA to provide a strong lever to make sure that the  
7 products that are being provided, either directly through  
8 banks or through some of the nonbank providers, are good  
9 quality products.

10 So I think about institutions like MetaBank, for  
11 instance, which is a big issuer of prepaid cards, and they  
12 clearly are giving a lot of focus on the provision of those  
13 products. If a strategic plan option were available where  
14 they could get significant credit for providing those  
15 products and services, and it was clear that it was going to  
16 be valued and considered over a five-year span by the  
17 regulators, I think that kind of opportunity to really  
18 dedicate the resources and the capacities around providing  
19 the services under a strategic plan service test would be  
20 perhaps taken up more aggressively than we've seen it so far.

21 MS. CASTRO: Several of you have indicated that  
22 consumer products and services should be included  
23 automatically in the CRA evaluation. Do you envision that  
24 for all sized institutions, from small, medium, and large so  
25 everybody would have that component added into the CRA

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1 evaluation? Is that what you were thinking?

2 MS. BOWDLER: Yes. Did you want me explanation or  
3 just yes or no?

4 MS. CASTRO: No, I would like your explanation. I  
5 would like to understand because that would be an expansion,  
6 correct?

7 MS. BOWDLER: Sure. So I'll just briefly -- Yes,  
8 we think it should apply to institutions of every size, but  
9 then I say that in context of there's a strong need for this  
10 to be community driven and for some flexibility, and thinking  
11 about the totality of the market. So small institutions may  
12 be serving a niche need, and that's fine. It doesn't mean  
13 they have to offer every single kind of basic banking  
14 services that we've listed out because they're -- it could  
15 mean a lot of different kinds of products. It's not that  
16 they have to offer many or every single one of these  
17 products.

18 But the advantage of doing some sort of plan is to  
19 document that this is a community need, I've met that need  
20 and I'm doing so robustly, especially for a small  
21 institution, again, that's filling a niche within a market  
22 that otherwise wouldn't be met I think is critical.

23 MR. STEGMAN: Just in terms of the strategic plan  
24 option, that exists today and hasn't been used very much by  
25 institutions. I would like to really see a -- kind of an

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1 evaluation of those that have used that and see what  
2 difference it really has made under current regulations  
3 before I would go to a broad option of a strategic plan. But  
4 I also wouldn't use the strategic plan option just for  
5 financial services, if we were moving in that direction away  
6 from the -- I would not have two quantitative tests and then

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8 a strategic plan for financial services.

9 with respect to the small dollar issue, it's very  
10 frustrating to see products out there that have proven  
11 themselves, in some cases actually in the billions of dollars  
12 of originations like the State Employee's Credit Union salary  
13 advance loan where they have done billions of dollars and  
14 several hundred thousand of these at a 12.75 percent APR and  
15 not see successful electronic technology driven small loan --  
16 small consumer loan products pick up. The take up by other  
17 institutions simply is not there. And so I would like to  
18 make sure that that kind of service, where we have proven  
19 that the economics do work, certainly for large banks, to  
20 have that explicitly included in the service test.

21 MS. RATCLIFFE: I'll pass.

22 MR. GRIFFIN: Oh, you're passing?

23 MS. RATCLIFFE: I agree with what's been said.

24 MR. GRIFFIN: Well, on the consumer products, I  
25 guess I want to make sure I -- we don't -- just because the  
26 bankers in the room would probably kill me -- that that

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1 doesn't include consumer lending, all consumer lending. If  
2 we have to report and geocode and do all the great stuff on  
3 consumer lending, you know, I know nobody wants -- feels  
4 sympathy for a bank, but it really would be just overwhelming  
5 and at some point, I don't know the benefit that would come  
6 from that. So I just wanted to make that clarification.

7 MS. BOWDLER: Could I --

8 DIRECTOR BOWMAN: All right. Thank you.

9 MS. BOWDLER: Could I make one note?

10 DIRECTOR BOWMAN: Sure.

11 MS. BOWDLER: I don't know if my mic is on. Can  
12 you hear me? Oh, there we go.



13                   Just one other note on the strategic plan, because  
14 I think we've talked about it in a couple of ways and I don't  
15 disagree with anything that my colleagues have said, but one  
16 of the important -- we -- In my recommendations in my written  
17 statement I recommended that to tie all these pieces  
18 together, that there be some statement about the bank's  
19 strategy. So I didn't necessarily mean to imply that the  
20 strategic plan option, as it exists now, become mandatory.  
21 But I do think that having a plan is a way for the community  
22 to have input, which is sorely lacking now. Especially as we  
23 see fewer and fewer mergers, the opportunity for formal input  
24 into the direction of bank services and for feedback from the  
25 community about what they need is lacking. So having a plan

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1 will help regulators sort of evaluate that, yes, these two or  
2 three investments that the bank is making is in response to  
3 things that the community has stated that they need. So they  
4 kind of -- there's a yin and yang there that I think is  
5 important, and I don't know how you would have one without  
6 the other. Products without being tied to a community need  
7 just aren't functional.

8                   MS. KOIDE: Or sustainable.

9                   MR. GRIFFIN: If I can just add to that -- I mean,  
10 one thing is, I guess, that -- sorry, am I --

11                   DIRECTOR BOWMAN: Please. Please

12                   MR. GRIFFIN: -- running amuck here?

13                   One thing about, you know, the community input and  
14 comment, I guess I'm always amazed when we go to have a CRA  
15 exam that we don't get more comment in advance. I mean, it's  
16 publicly announced where an exam is coming up, you know, it's  
17 out there, a lot of the community groups look at that. I

18 would say -- not that I'm trying to invite, you know, --

19 (Laughter)

20 -- a deluge of criticism, but, I guess, our last  
21 exam we had one person write in in advance of the exam to  
22 offer comment or thoughts about what we should do, what we  
23 were doing, and I guess I'm always surprised by that. Just  
24 an observation.

25 MS. RATCLIFFE: So now I want my time back.

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1 (Laughter)

2 I think -- and not to disagree -- I think that  
3 there are some elements about the public role that maybe  
4 could be strengthened for sure, and in terms of the service  
5 test, since that's our subject, I don't see how, based on the  
6 information collected by the examiners and available to the  
7 public, you could really get a handle on how -- whether you'd  
8 have any basis for complaint or for protest or for  
9 recommendation for changes. It's just too hard to get your  
10 hands on what the bank is doing, and it's completely  
11 impossible to assess what's happening in a single  
12 marketplace, on the service side, from what is collected in  
13 CRA.

14 And to the extent that, you know, the way the HMDA  
15 data has been used to really engage the community in the  
16 dialogue with the financial institutions, I think something  
17 on the service side should be put in place before you decide  
18 that there's no community comment on that area. I just think  
19 it's difficult for the community to get engaged.

20 MR. GRIFFIN: Sure.

21 MS. RATCLIFFE: And I might add, the quality of the  
22 product matters, too.

23 MR. GRIFFIN: Yeah.

24 MS. RATCLIFFE: So we also need to not just  
25 recognize when a bank has branches in the right communities

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1 and is offering checking accounts, there is this anecdote  
2 that we hear a lot about the great CRA product that a bank  
3 has, but then that that product never gets offered to  
4 anybody. So that's something you'd need to examine further.  
5 And then the other side, of course, are the products which  
6 might drain resources from the communities that are being  
7 offered as well that would defeat it. Thank you.

8 DIRECTOR BOWMAN: Let me jump in here and move to  
9 our second round of questions, if I can.

10 MS. RATCLIFFE: Uh-huh (affirmative).

11 DIRECTOR BOWMAN: You actually, in the response to  
12 a number of questions by Vice Chairman Gruenberg, you  
13 answered a number of -- all of the questions that I had. So  
14 what I'd like to do is to -- perhaps at least for purposes of  
15 my question -- change the focus a little bit, which is to the  
16 current definition of community development, which includes  
17 activities that promote development by financing businesses  
18 and farms that meet the small business administration size  
19 standards for, quote, small entities or entities that have  
20 gross annual revenues of a million dollars or less.

21 Should size limitations and dollar limitations be  
22 raised for activities that promote economic development in  
23 rural areas? I'd like to hear from all of you, and whoever  
24 is next up can start, probably you, Mr. Griffin.

25 MR. GRIFFIN: Great. The one topic I don't have

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1 much of a thought on.

2 DIRECTOR BOWMAN: That's fine. That's fine.  
3 MR. GRIFFIN: I'll pass on that one.  
4 MS. BOWDLER: I'll pass, too.  
5 DIRECTOR BOWMAN: Okay. Mr. Stegman?  
6 MR. STEGMAN: I don't have anything to add to that.  
7 DIRECTOR BOWMAN: Okay. All right.  
8 Ms. Ratcliffe?  
9 MS. RATCLIFFE: So specifically your question is  
10 about whether the size and dollar limitations on small  
11 business lending in rural markets should be raised?  
12 DIRECTOR BOWMAN: Correct. To provide additional  
13 assistance to, if it's appropriate, to rural areas.  
14 MS. RATCLIFFE: I can't think of any reason not to  
15 support that but --  
16 DIRECTOR BOWMAN: Okay.  
17 MS. RATCLIFFE: -- I'll have to study it some more.  
18 DIRECTOR BOWMAN: All right. Let me go to my next  
19 question which is: As we, the regulators, evaluate how  
20 institutions provide retail access to banking services,  
21 should negative consideration be given to high cost products  
22 such as accounts with very high overdraft fees and -- again,  
23 not to let you off with a yes or no -- if so, how would that  
24 be measured and how should it be incorporated into the  
25 rating?

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1 MR. GRIFFIN: I think Melissa starts on this one.  
2 DIRECTOR BOWMAN: You're next.  
3 (Laughter)  
4 MS. KOIDE: I think you're going to hear some of  
5 this a little later in some of the other panels.  
6 DIRECTOR BOWMAN: Exactly.

7 MS. KOIDE: We are not making that recommendation.  
8 I fully understand where that recommendation is coming from,  
9 but our response is that we have a new cop in town called the  
10 Consumer Financial Protection Bureau, and that entity is  
11 going to be charged with policing the marketplace, and let's  
12 give that entity the authority to identify bad products and  
13 figure out what to do with them.

14 Also, that the CRA is designed in order to increase  
15 access to good products, so let's really use that and  
16 leverage it to get good products out there in the  
17 marketplace.

18 DIRECTOR BOWMAN: Although I'd also suggest, if I  
19 could, that for institutions of 10 billion dollars or less,  
20 the regulators will have primary supervisory authority,  
21 examination, et cetera, will more likely than not be those  
22 providing exam ratings. So I don't want to dismiss the  
23 question by saying --

24 MS. KOIDE: That's a fair point.

25 DIRECTOR BOWMAN: -- let's wait for the next cop.

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1 MS. KOIDE: Completely fair point, but I think that  
2 those products that are considered high risk or predatory for  
3 consumers are likely to be quite clearly identified through  
4 this new protection bureau, and so this goes back to my  
5 recommendation that there is good coordination between the  
6 CRA regulators and the Consumer Protection Bureau when there  
7 are those circumstances where the authority isn't explicit.

8 DIRECTOR BOWMAN: Right. Which I am confident  
9 there will be lots of coordination going forward.

10 Ms. Bowdler?

11 MS. BOWDLER: So my answer is yes. I do think that  
12 offering negative products is such an amorphous term, so

13 acknowledging that, it should be considered, in particular if  
14 those are the products that the institution is putting  
15 forward to serve the low and moderate income community.  
16 There's always this argument that a product taken out of  
17 context was really meant for somebody else, but used by a low  
18 income person or a first account person, that wasn't the  
19 right fit. So I don't want to get into an argument of  
20 whether this high end product was really intended for  
21 somebody else and therefore they should have it on their  
22 books.

23 But in the context of those products being offered  
24 to the market we're talking about, it is problematic. And in  
25 creating the bench marks I have in my written statement,

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1 things to look for are things like affordability, community  
2 uptake, presence and use of hidden fees, and length of time  
3 open, and then also looking at flags such as accounts being  
4 opened and closed quickly over a period of time, abnormal  
5 rates of defaults on small dollar loans, and consumer  
6 complaints as being important to consider. And I think that  
7 what that does for you is give you a sense of whether or not,  
8 again, these are the right products that respond to what it  
9 is the community actually needs.

10 DIRECTOR BOWMAN: Thank you.

11 MR. STEGMAN: I would not conflate high cost  
12 products with abusive products, and have never been one to  
13 argue that subprime was equivalent to predatory lending. So  
14 I would really look to the features and the terms to make  
15 that decision, not purely high cost.

16 But I also -- and you'll get into this with the  
17 other panels -- the idea of being able to really have these

18 kinds of consumer -- kind of dangerous products outside of  
19 your assessment area, but not in your assessment area, I  
20 think is something that -- in allowing banks to choose  
21 whether or not an affiliate should be part of the exam, all  
22 of those things have to be really, I think, changed as we go.  
  
23 And I do think in the community development kind of lending  
24 area, sustainability, sustainable mortgage products,  
25 sustainable home ownership and those kinds of things really

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1 have to be given credit in the service test. Since you can't  
2 unbundle the 20 percent that's not the kind of branches, it's  
3 very hard to say how would you impose kind of negative, you  
4 know, negative credit in some cases? I would have to kind of  
5 think about that.

6 But I would also point out what Michael said,  
7 there's not really great incentives anymore for an  
8 outstanding, and I really want to imbue the system with that  
9 kind of incentive, which I think is as important as anything,  
10 before I start talking about negative credit on the financial  
11 services side.

12

13 DIRECTOR BOWMAN: Thank you.

14 MS. RATCLIFFE: Another alternative that builds on  
15 some comments, I think, that were delivered at earlier  
16 hearings, is the idea of maybe classifying an account -- on  
17 the transaction account side, maybe -- as a CRA, say,  
18 friendly type product.

19 So, to the extent that you -- just to have sort of  
20 an approach, to propose an approach, you could maybe sort of  
21 grade the kinds of products that are offered and give more  
22 credit to the distribution of the products that are

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23 demonstrated to be good quality CRA oriented type products.  
24 And so it doesn't necessarily mean punishing the bad  
25 products.

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1 But then, you know, there is obviously certain  
2 behaviors, blatant, you know, activities that ought to be  
3 always -- just like on the mortgage side, when you could be  
4 burying your affiliate in some activity that ran afoul of  
5 fair lending laws and not count that as -- that sort of  
6 thing, obviously, we should address.

7 MR. GRIFFIN: I guess I would say, certainly if  
8 somebody is engaged in a predatory activity, that should be  
9 addressed, but I think it's addressed under other laws, other  
10 examinations. You know, I think about, certainly there's  
11 already that out there on fair lending if someone's,  
12 certainly trying to take advantage of a protected class, that  
13 failure of that test already impacts the CRA exam. So  
14 certainly I'm not going to sit here and advocate their sticks  
15 to beat me with, so.

16 (Laughter)

17 DIRECTOR BOWMAN: Thank you. Vice Chairman  
18 Gruenberg?

19 (No response)

20 DIRECTOR BOWMAN: Vice Chairman Gruenberg, are you  
21 still there?

22 VICE CHAIRMAN GRUENBERG: Yes. I had the mute on  
23 again.

24 (Laughter)

25 VICE CHAIRMAN GRUENBERG: I want to come back to

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1 the point made by Mr. Griffin in his testimony in discussing  
2 the efforts of the institutions to offer low cost basic  
3 banking services as well as the location of the branches  
4 being in low and moderate income communities. The goal was  
5 not simply to provide the services -- check cashing, for  
6 example -- but to develop a relationship with the bank for  
7 these customers. And I wanted to ask Mr. Griffin, one, did  
8 the activities in the bank, both the branch location and the  
9 services, meet with some success? And then I'd like to ask  
10 the other panelists, in effect, should this be a goal of CRA,  
11 beyond offering individual services? And in offering  
12 particular services and products, is there a value for low  
13 and moderate income people for developing a bank relationship  
14 and should this be recognized explicitly by CRA, which I  
15 think was another suggestion Mr. Griffin made as well. We  
16 can start with Mr. Griffin and then perhaps get a response  
17 from the other panelists.

18 MR. GRIFFIN: Sure. I would say yes, our  
19 products -- our KeyBank Plus sort of approach has met with  
20 success. We've certainly continued to expand it to other  
21 areas. So we continue to look at physically where we can  
22 expand it, but also the product offering we can expand. One  
23 thing that's become very clear to us is offering one product  
24 that people are currently utilizing, for example, check  
25 cashing, isn't going to keep them with you if you don't offer

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1 the similar products, you know, the associated products of  
2 bill pay, money orders, remittance products. I mean, really,  
3 if you want to capture that business you've got to develop  
4 that full suite of products to keep them with you because  
5 otherwise they have to go somewhere else to do those  
6 activities. So who's going to make two trips somewhere to do

7 that?

8           So certainly it has met with success, and has also  
9 met with success not just on the uptake on those products.  
10 You know, as we talk to our branches and evaluate what's  
11 going on for those branches that have the KeyBank Plus  
12 program, what we find is sometimes people will come in  
13 because they saw the check cashing -- again, that's what they  
14 were coming in for -- they didn't think they could get a  
15 checking account or a savings account because they -- either  
16 they had had issues with a checking account previously, may  
17 think they're still on check system, something like that. So  
18 sort of anecdotally what we've found is a lot of folks come  
19 in looking for the check cashing, but end up, because they  
20 realize they can open other accounts, handling those  
21 services -- those products. You know, getting different  
22 products so they can handle their financial services  
23 differently.

24           VICE CHAIRMAN GRUENBERG: And if I could just ask  
25 the panel to comment, is part of the goal here with services

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1 to encourage banking relationships for people in low and  
2 moderate income communities?

3           MS. BOWDLER: I'll jump in on that, this is Janis.  
4 I think relationships do matter, and in my statement I tried  
5 to really sort of hedge between the question -- or not really  
6 pit them against each other in terms of branches versus  
7 technology. What we have found in focus groups with Latino  
8 consumers is that a good branch can make all the difference.  
9 It's where families go to find a bilingual agent. They can  
10 have somebody that's going to walk them through the details  
11 of their account or their first credit card, and that they

12 really rely on that one-on-one high-touch service is still  
13 really important, and I do think that that is an important  
14 goal. I just think -- I would only caveat that by saying  
15 that it's not the only way that families will ever interface  
16 with the banking system, but certainly relationships are  
17 important and I think there's high rewards for that in  
18 graduation, Mike -- much as Mike was mentioning.

19 MR. STEGMAN: Yeah. The argument originally was  
20 made that an investment in the unbanked by an institution  
21 would develop kind of a loyal customer base, and over the  
22 long term, even if those initial products didn't show much  
23 return, over time they would migrate kind of up market into  
24 more profitable products. I haven't seen a whole lot of  
25 studies about that. I do think obviously a mainstream

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1 banking relationship is terribly important, but I would not  
2 really kind of look to kind of connect at the hip low income  
3 communities with a particular financial institution when  
4 people shop all over the market for the best deal for  
5 themselves.

6 So I always thought that the argument for banks was  
7 to invest in the customer development because it's really in  
8 your interest to do it. I always want to give the consumer,  
9 obviously, maximum market choice.

10 DIRECTOR BOWMAN: Thank you. Tim?

11 MR. BURNISTON: Sure. I just have one quick  
12 question.

13 Mr. Stegman, in your testimony I was reading a part  
14 about the -- your idea about the independent institution for  
15 Financial Innovation, Research and Evaluation, and there was  
16 the discussion about who should pay for that and you  
17 mentioned what you call mega banks, and then you also talk

18 about the ten largest CRA covered institutions in the country  
19 having 3.1 trillion dollars in deposits and a combined market  
20 share of about 45 percent.

21 what I was wondering is whether or not you were --  
22 or any of you were thinking about whether we have things  
23 pegged the right way in terms of how we sort of separated  
24 institutions into different categories for purposes of  
25 evaluation. we've talked about smaller banks today,

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1 intermediate and small banks and large banks, but you raised  
2 this issue about mega banks, and I'm wondering whether or not  
3 there's anything in there about -- or any thoughts to whether  
4 or not there should be any -- I'm talking about the  
5 duty-to-lead concept in there as well. I wondered whether or  
6 not we were -- do we have things sort of pegged the right way  
7 or should we be considering another strata of institution for  
8 purpose of developing a whole separate set of performance  
9 tests or evaluation criteria?

10 MR. STEGMAN: Well, I won't take any more time  
11 because I kind of proposed that and I'd like to hear other  
12 panelists, but it strikes me between 1995, when we really  
13 made those last changes in terms of performance with all of  
14 the consolidation and the market consolidation, which has  
15 really, really ramped up in the last several years, and now  
16 we're at a point where we really do have another tier of  
17 institution. And the idea of just looking at services,  
18 investment, and lending, as if these institutions shouldn't  
19 really have kind of a mandate to really change some of the  
20 dynamics that we've been talking about, I think totally kind  
21 of misses the policy point. So I would obviously say, yes,  
22 we should be looking at that super tier.

23 MS. RATCLIFFE: I completely agree with that, and I  
24 think it might be worth -- without having a very concrete  
25 proposal in mind -- it still might be worth also looking at

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1 not just tiered tests, but a tiered incentive structure so  
2 that it really does encourage behavior dependant on what  
3 you're asking each kind of institution to do.

4 MR. GRIFFIN: I really haven't thought about that,  
5 but certainly I like the tiered incentives. Anything that  
6 talks about incentives, I'm for it.

7 MS. KOIDE: I agree with Janneke.

8 DIRECTOR BOWMAN: Thank you.

9 MS. CASTRO: I would like to go back to the issue  
10 of the community development test. A couple of you have  
11 mentioned it in a few different ways, and I guess my question  
12 to all of you is: Are you all in agreement or all saying  
13 that there should be a separate community development test  
14 for every type of institution? I'll just start with that.

15 MR. GRIFFIN: I mean, I'll go ahead. I guess where  
16 I come to for a community development test and why it sort of  
17 strikes a cord with me is, again, I came from a background of  
18 working at Community Development Corps developing affordable  
19 housing and I always look at community development lending,  
20 which when people think about community development, or CRA,  
21 I think that's what comes to mind for most people, sort of  
22 construction loans for affordable housing, the new market's  
23 tax credit lending, you know, those types of things, and I  
24 think there's this belief that it gets the majority of the  
25 weight in the lending test. When community development

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1 lending is really only additive to small business and  
2 mortgage I think it gets overshadowed and, again, doesn't  
3 encourage some of the most important lending that goes on to  
4 redevelop communities.

5 So I think about that, sort of pulling that out of  
6 the lending test, pulling those community development  
7 services out of the service test, to really highlight those  
8 and say, again, "If you're doing these in a pretty accurate  
9 way, you deserve an outstanding," you know, you deserve  
10 something for that. And so to highlight the importance of  
11 those things I think that's why I sort of move towards a  
12 community development test overlaying the rest of it.

13 MS. RATCLIFFE: I think those are really good  
14 points that Mike is making.

15 I think that, again -- I'm saying this quite  
16 repeatedly -- but I think it really does come back to where  
17 the institution is and where its focus is, and not  
18 necessarily all of the institutions are thinking about or  
19 doing really explicit some of the investment types of  
20 activities in the community development test. So if it  
21 really is befitting the plans of the business, of the bank  
22 and what they're doing, then that should be there, but I  
23 don't think it is necessarily in place for all of them.

24 MS. BOWDLER: So my understanding -- and I don't  
25 necessarily feel that I'm an expert on this -- but the way

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1 the tests were developed, the smaller you go in the  
2 categories, they sort of meld and that actually that most  
3 banks don't have the three distinct tests.

4 So when I say that I think that all banks should be  
5 sort of graded on the criteria that we've mentioned here, we  
6 also point out that that is in the concept of, you know,

7 banks have more streamlined tests. It's just that, even --  
8 but yet, even though they're streamlined, all of these same  
9 criteria are eligible to be evaluated, and so I don't  
10 necessarily argue that those tests should be split out for  
11 those smaller institutions, but that under the umbrella of  
12 things that they -- for which they can be evaluated, we could  
13 do a better job of putting -- assigning bench marks to them.

14 And specifically on the community development test,  
15 what we argue for is something that would be akin to  
16 investments and CDFIs that would be investments in other  
17 institutions that would encourage either the taking of  
18 deposits or issuing of starter credit or credit builder  
19 loans, and that that would be -- you could actually quantify  
20 that. And so I think that would probably be bigger  
21 institutions investing in smaller institutions, but could be  
22 peer-to-peer investment, again, as a way to meet the totality  
23 of needs within a market. That, I think you can do within  
24 the way that the community development test is structured  
25 now. It's just that it's not -- to the idea that people

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1 teach to the test, that's not graded right now and it's not  
2 encouraged.

3 MS. CASTRO: I have a followup.

4 So you had mentioned this third party investments,  
5 and then I think in your opening statement you had mentioned  
6 that the recipient of those investments should also be  
7 evaluated. Can you talk a little bit more about what that  
8 would look like?

9 MS. BOWDLER: Sure. The point was really that  
10 people shouldn't be allowed to make an investment that skirts  
11 the rules or spirit of CRA. And so the examples I use are

12 investments in community banks and credit unions to enable  
13 what they're already doing well.

14 And so the idea is that a larger bank -- and again,  
15 if we're assessing based on everywhere a bank is doing  
16 business, and maybe they primarily have an internet presence,  
17 let's say, in the metro area -- it might make more sense to  
18 them to put a deposit in a credit union that has expertise  
19 and further enable them to do their work, in which case  
20 the -- because they have a choice then of where to put their  
21 investment, they need to put it in a place that's acting  
22 responsibly, and they need to gather information to make that  
23 case. And this goes to points that were made earlier, that  
24 they shouldn't be allowed to count activity or hide activity  
25 in an affiliate that's going to skirt the rules.

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1 So if you go with this investment strategy and make  
2 a strategic decision that your institution is not going to  
3 offer, let's say small dollar credit, but you're going to  
4 enable a great credit union who is doing this really well,  
5 you can't make an investment that's going to run afoul of  
6 fair lending laws or is somehow harming the community.

7 DIRECTOR BOWMAN: And with that, I'll bring our  
8 first panel to its conclusion. Thank you, Janis, Michael,  
9 Janneke, Michael and Melissa for your time and your insights.

10 We'll take a 15-minute break and we'll encourage  
11 all attendees to be back at 11:00 o'clock. Thank you.

12 (Whereupon, a break was taken.)

13 DIRECTOR BOWMAN: I'd like to introduce our second  
14 panel: Ellen Harnick, Senior Policy Counsel for the Self  
15 Help Credit Union, Center for Responsible Lending; William  
16 Johnson, Jr., Chief Executive Officer of Pee Dee Savings  
17 Federal Savings Bank; Carolyn Branton, who is the Southeast



18 Regional Office Director, Housing Assistance Council; Joseph  
19 Black, President of Southern Bancorp Capital Program; and Ed  
20 Sivak, Vice President, Policy and Evaluation, Enterprise  
21 Corporation of the Delta.

22 And if I could, let me repeat the instructions for  
23 our panelists, which is each panelist will have five minutes  
24 to do your opening presentation. The timekeeper at the front  
25 of the room will indicate when there is one minute left

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1 remaining and when the time is up. Following your  
2 presentations I will -- actually, Vice Chairman Gruenberg  
3 will start the rotation of the questions among the  
4 principals, and each principal will have five minutes to  
5 answer the questions. If time permits, the principals will  
6 have a second round of questions. And since this event is  
7 being recorded, we would ask you to please remember to speak  
8 into the microphone.

9 Ms. Harnick, if you would start.

10 MS. HARNICK: Thank you very much.

11 I'm very happy to be here to seek about how to  
12 address the needs of distressed and underserved and rural  
13 communities. These communities, as we all know, have been in  
14 many ways falling behind and have been behind other  
15 communities, and the Great Recession of recent years has only  
16 exacerbated this gap. Low and moderate income communities  
17 and households have not only seen their economic  
18 circumstances deteriorate in recent years, but they are  
19 increasingly isolated in low income neighborhoods, cut off  
20 from educational and employment opportunities available  
21 elsewhere.

22 Quality of life in these neighborhoods has

23 typically deteriorated in recent years, as boarded up homes  
24 and shuttered businesses mark the aftermath of the subprime  
25 lending spree. And I would note that some of this lending

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1 was conducted by the affiliates of institutions that are  
2 covered by the Community Reinvestment Act.

3 The lack of safe and affordable local daycare  
4 challenges those who are employed, and the absence of  
5 reasonably priced grocery and other retail stores further  
6 drains their resources.

7 Lacking trust in financial institutions, many do  
8 not use basic financial services necessary for accumulating  
9 savings, and many more rely on high-cost service providers  
10 like payday lenders and check-cashers rather than seeking  
11 credit from more affordable mainstream providers.

12 As always, these economic hard times have dealt a  
13 particular blow to communities of color.

14 While financial institutions can only be only part  
15 of the solution, they are an important part. Their services  
16 could have a real impact on the individuals and communities  
17 left behind during the economic good times, that have been  
18 pushed into acute need in this recession.

19 CRA regulations can do a better job of incenting  
20 institutions to meet the needs of these communities.  
21 Regulations have not kept up with technological and market  
22 changes in recent years, and has made it easy enough for  
23 institutions to evade their obligations, or to put it another  
24 way, have not fairly or adequately incented institutions to  
25 make it worth their while to do a better job of complying.

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1 Intervention is needed now to help salvage  
2 distressed neighborhoods before there is little left to  
3 save -- to put low income families on a track toward  
4 mainstream financial services, savings, and ensure that they  
5 gain a foothold in the middle class.

6 My broad message is that regulatory improvements to  
7 CRA can and must push institutions to provide more and better  
8 savings, transaction, and credit services to underserved  
9 communities and individuals, and to support community  
10 development projects in underserved communities.

11 In particular, I'd urge the following: First, CRA  
12 regulations should be more focused to specifically incent  
13 fair, affordable, and sustainable savings and transactions  
14 services specifically targeted and designed to meet the needs  
15 of low and moderate income individuals. So the credit should  
16 apply -- we talked about this on the first panel -- but  
17 designing products that specifically aim to meet the need of  
18 underserved communities. And, of course, we need to look at  
19 the volume of the uptake of these services.

20 Second, this goes to the question of whether to  
21 penalize bad services and also what kind of services to get  
22 credit. I think it's clear from events of recent years that  
23 these communities don't just need any credit, they need fair,  
24 affordable and sustainable credit, which was precisely what  
25 the CRA was intended to incent.

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1 Additionally, CRA should more effectively incent  
2 loans and investment for community development projects, not  
3 as a substitute for credit to individuals, but as an  
4 important part of meeting the communities' needs.

5 CRA coverage should be modernized away from  
6 geographic boundaries, as we discussed on the first panels,

7 and from the use of corporate structures that concentrate  
8 certain practices in affiliates.

9 with these common-sense reforms, the banking  
10 agencies can improve institutions' CRA compliance and help  
11 build a better quality of life and greater economic  
12 opportunity for struggling families and communities across  
13 the country.

14 Thank you.

15 DIRECTOR BOWMAN: Mr. Johnson?

16 MR. JOHNSON: Thank you. My name is Bill Johnson.  
17 I'm the president of a small financial institution in Marion,  
18 South Carolina. Most people that know relate us to Myrtle  
19 Beach, South Carolina, so -- but we're still a rural  
20 community.

21 I was recently talking to a hospital administrator  
22 who was going through some regulatory reforms and he reminded  
23 me of a Marine Corps phrase that I've been paying attention  
24 to lately, and it was: Adapt, overcome and improvise. It  
25 seems that Pee Dee Federal Savings Bank is constantly living

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1 by this rule as well as other small institutions.

2 we're in a poor rural community, and CRA means more  
3 than just meeting the financial needs of the unbanked and  
4 underbanked persons. Financial institutions in the rural  
5 area have a responsibility to focus on all of the community's  
6 needs. These needs range from basic qualities of life to  
7 providing housing to understanding and listening  
8 compassionately.

9 Our community contains a population of 33,967  
10 individuals. Our per capita income is \$24,396. 22.5 percent  
11 of our population is living below the poverty line.

12 Unemployment has been as high as 22 percent in our community,  
13 and presently it's at 19.3 percent. It's the highest in  
14 South Carolina.

15 Prior to 2004 the main industry of Marion County  
16 was tobacco. This industry and the money crop for Marion  
17 County has gone away. Over the past ten years the county has  
18 experienced the loss of eight manufacturers, and still  
19 another manufacturer has threatened to close the industry and  
20 close the plant by December 31, 2010, if a buyer cannot be  
21 located.

22 I am confident that our situation is not unique in  
23 rural America. However, it is close to home and it is  
24 reality. As I previously stated, Community Reinvestment is  
25 more than just dealing with the underbanked. Our bank is

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1 concerned with the everyday life of our neighbors, friends  
2 that we see at church, grocery stores, schools and public  
3 events. Compassion plays a big part in making our decisions  
4 as to where to -- places to invest in the community. Pee Dee  
5 Federal Savings Bank believes that issuing -- excuse me. Pee  
6 Dee Federal Savings Bank believes that assisting in the  
7 attraction of industry to the community is the highest of  
8 priorities. Marion County needs jobs.

9 Pee Dee Federal Savings Bank is a mutually  
10 chartered savings and loan association that was formed in  
11 October of 1935. We have \$38.5 million in assets, two  
12 locations -- one in Marion and one in Mullins -- both in  
13 Marion County. In the early '80s with deregulation, Pee Dee  
14 Federal was not profitable and there were times when we were  
15 not sure if survival was going to be possible. However, we  
16 did survive and today Pee Dee Federal Savings Bank is  
17 financially sound, with 24 percent capital and 33 percent

18 risk weighted capital. We continue to be profitable while  
19 the too-big-to-fail institutions have had to have government  
20 intervention to keep their offices open. We have managed to  
21 raise this capital and raise this risk weighted with 13  
22 employees.

23 In 2004, management and the directors at Pee Dee  
24 Federal met for the purpose of determining the future of Pee  
25 Dee Federal Savings Bank. To determine our future we had to

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1 understand why we were formed and what the past was about.  
2 Management took the time to review all of the Board minutes  
3 from 1935 to present day. It quickly became obvious that Pee  
4 Dee Federal existed for the betterment of the community.  
5 Therefore, the decision was made at that time to remain as a  
6 mutual institution, remain in the market that we knew and  
7 understood for 75 years and continue to support the citizens  
8 of Marion County. This decision has proven to be the best  
9 for Pee Dee Federal Savings Bank. We did not get caught up  
10 in growth mode and unsound loans and move into markets that  
11 we were unfamiliar or those that we did not understand.  
12 Management continues to deal with the local individuals that  
13 we know and live with daily. We understand their problems.  
14 Sometimes these problems may be more than financial, which is  
15 just part of being a community bank.

16 The recession and regulatory reform has brought new  
17 issues from small rural financial institutions. Since the  
18 recession began and the stutter of wall Street and the  
19 too-big-to-fail corporations, Pee Dee Federal and other small  
20 rural banks have thrived and done well. However, in the  
21 financial reform package the Government continues to write  
22 regulations that are directed to the too large financial

23 institutions to prevent future failures, which were greatly  
24 needed. The small rural financial institutions did not make  
25 high-risk loans or high concentrations of loans or investment

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1 in risky derivatives. Pee Dee Federal Savings Bank focused  
2 on good sound lending and proper underwriting loans. We did  
3 not create the issues of today, however, the same regulations  
4 are being applied to the healthy rural banks that have  
5 limited resources. The new regulations that are being  
6 applied to the smaller financial institutions are causing  
7 expenses to rise -- Okay. I'm sorry. My time is up. I  
8 apologize.

9 One final statement is that we are a sound  
10 financial institution and CRA means business as usual for us.

11 I apologize for taking your time.

12 MS. BRANTON: That's okay.

13 Thank you for inviting the Housing Assistance  
14 Council, or HAC, as we like to be called, to comment on the  
15 Community Reinvestment Act, particularly with respect to  
16 distressed, underserved, and rural areas. My name is Carolyn  
17 Branton and I am the HAC's Southeast Regional Director.

18 HAC is a national nonprofit dedicated to improving  
19 housing conditions for low income rural Americans. It was  
20 established in 1971 to provide financing, information, and  
21 technical services to nonprofit, for-profit, public, and  
22 other providers of rural housing. Created to meet the  
23 housing needs of the poorest of the poor in the most rural  
24 places, HAC fulfills its mission by working in close  
25 partnership with local organizations in rural communities

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1 throughout the nation. These relationships provide HAC with  
2 first-hand knowledge of the issues impacting rural areas.

3           Even before the current recession low income rural  
4 residents, and the organizations and agencies that seek to  
5 improve their housing conditions, faced housing challenges.  
6 Approximately 8.2 million rural households -- that's three in  
7 ten -- pay more than 30 percent of their monthly income for  
8 housing costs and are considered cost-burdened. Most  
9 cost-burdened households have low incomes, and a  
10 disproportionate number of renters. While the past few  
11 decades have seen dramatic improvement in the quality of  
12 housing in rural America, 1.5 million of rural homes were  
13 either moderately or severely substandard in 2007.

14           A HAC analysis of Home Mortgage Disclosure Act data  
15 found that in 2008 only nine percent of loan originations  
16 went to minorities in rural areas although they make up 20  
17 percent of the rural population nationwide.

18           The Community Reinvestment Act has been an  
19 important tool to increase housing funding for the poorest  
20 rural Americans. HAC appreciates the interest in updating  
21 and revising the CRA regulations, and believes that  
22 legislative changes are needed as well.

23           HAC's comments on the regulations make the  
24 following points:

25           Assessment areas should be identified based on

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1 where institutions conduct substantial activities, not where  
2 their offices are located.

3           The same performance assessment should be used for  
4 all lenders regardless of asset size.

5           Performance evaluations should include



6 consideration of local needs, service to minorities, and fair  
7 lending.

8 Evaluations should focus on each community's needs  
9 rather than what has worked well elsewhere or how innovative  
10 a tactic may be.

11 New rating categories of high satisfactory and low  
12 satisfactory should be added to the current four categories.

13 Both incentives and consequences should be  
14 instituted to encourage improved CRA performance.

15 HAC recommends identifying places based, not on the  
16 proportion of the lender's loans going to each place, but on  
17 the lender's proportion of the total loans in each place. If  
18 a lender makes 2000 mortgage loans in one year, and three of  
19 them are in a rural county, these loans represent only  
20 two-tenths of one percent of the institution's lending.

21 And you'll have to forgive me, I'm just going to  
22 skip because there's something I don't want to leave out.

23 Rural areas are disproportionately impacted by the  
24 less rigorous CRA evaluations applied to small and  
25 intermediate institutions, the majority of which are based in

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1 rural places. The only fair solution is to apply the same  
2 level of scrutiny to all lenders regardless of size. At the  
3 very least, the less rigorous exams should not be expanded to  
4 apply to additional lenders.

5 Finally, evaluations should probe more rigorously  
6 for evidence of illegal and discriminatory lending. Fair  
7 lending reports on CRA exams should include detailed  
8 explanations of the fair lending tests used and should  
9 consider illegal and discriminatory lending to be unsafe and  
10 unsound lending.

11 Did I say -- Oh. Thank you.

12 DIRECTOR BOWMAN: Thank you. Mr. Black?

13 MR. BLACK: I'm going to speak fast.

14 I'm Joe Black, President of Southern Bancorp  
15 Capital Partners, a nonprofit economic development affiliate  
16 of Souther Bancorp, which is the largest rural development  
17 banking institution in the country.

18 Roughly six years ago we self-evaluated and looked  
19 at ourselves and the impact of our development lending  
20 program. We had lent over \$2.5 billion in development loans  
21 in distressed markets with 20 percent poverty or greater.  
22 That self-evaluation revealed that all those communities were  
23 still poor. It led us to the assumption and the recognition  
24 that development lending as a standalone strategy in a highly  
25 distressed market is insufficient to catalyze sustainable

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1 community economic development.

2 So we recreated and started a our community  
3 development program in conjunction with our development  
4 lending initiative. We engaged communities where we had a  
5 banking presence and strategic planning and program  
6 strategies in what we call our five pillars of community  
7 development -- housing, education, healthcare, leadership  
8 development and economic development -- as a category.  
9 Recognizing that in rural markets community growth and  
10 survivability is tied to bank growth and survivability, banks  
11 in general -- rural banks in particular -- have a symbiotic  
12 relationship with the communities they serve. If the  
13 community thrives and grows, usually the bank thrives and  
14 grows, get greater deposit, get good loans. When the  
15 community declines and has out-migration of population,  
16 usually deposits decline, bank loans -- the quality of bank

17 loans decline. So whether banks realize it or not,  
18 particularly rural banks, your survivability is tied to the  
19 markets you serve. Therefore, you have a vested interest in  
20 that survivability and growth.

21 So, one, we need to do a better job of educating  
22 our rural institutions of the role that they play,  
23 particularly in rural America. We believe that there are  
24 roughly four institutions that rural America defines itself  
25 by -- hospitals, schools, churches and banks. You look at

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1 any rural community, if it lacks one of those institutions, I  
2 can instantly give you a profile in terms of population and  
3 income level. And if you look at a community that doesn't  
4 have a bank, I can really tell you where they're at. If you  
5 look at a community that doesn't have a school, I can give  
6 you a profile. If you look at a community that doesn't have  
7 a hospital, I can give you a profile. If you combine those  
8 four institutions for growth, I also believe that we're  
9 putting undue pressure on banks as a standalone institution  
10 to do this; especially in rural markets, it's not efficient.  
11 In the urban markets with their population density it makes  
12 the delivery of goods and services much more efficient and  
13 profitable. In rural markets where you have sparse  
14 population and wide geographic dispersment, you must align  
15 yourself with partners who have similar interests and goals  
16 as you do in order to deliver goods and services efficiently  
17 and effectively.

18 To that effect, we're engage in community  
19 development. We partner with other community institutions,  
20 such as schools and hospitals, to identify a target  
21 population for services, recognizing that it's no  
22 institution's standalone responsibility to do this. It's

23 collectively all of our responsibility. As a result, we were  
24 able to reach out to a far greater population base, leverage  
25 over 75 million in private sector investments in lower income

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1 distressed markets, in addition to our traditional bank  
2 lending. It's proven to be a very effective tool because it  
3 involves community engagement, and that may well be a  
4 category for you all to consider developing with your  
5 community development test, this community engagement  
6 component that energizes and allows communities to have  
7 self-determination.

8           One of our discoveries in implementing such a  
9 comprehensive strategy is much like the Federal Reserve's  
10 principal asset in community development: our ability to  
11 convene. Historically community economic development had  
12 been done in rural markets by well-meaning institutions and  
13 organizations outside that market coming in to help new  
14 people. This is an initiative sprung by institutions from  
15 within the community who have the ability now because they  
16 have a physical presence in the community, as banks do, to  
17 think in economic development in time horizons of 15 to 20  
18 years, versus historically thinking of economic development  
19 in time horizons of 2 to 5 years, which is what you do when  
20 you have outside programs coming into a distressed market.  
21 It's changed the dynamic completely, it's sustainable, and it  
22 give community ownership to the program.

23           I'm through.

24           MR. SIVAK: Good morning. My name is Ed Sivak and  
25 I'm the Senior Vice President of Policy with the Enterprise

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1 Corporation of the Delta and Hope Credit Union. ECD/HOPE is  
2 a community development finance institution dedicated to  
3 strengthening communities, building assets, and improving  
4 lives in economically distressed areas of the mid South by  
5 providing access to high quality financial products and  
6 related services. On behalf of Bill Bynum, our CEO, and our  
7 Board of Directors, I'd like to thank the Office of Thrift  
8 Supervision for the invitation to speak today and to all  
9 present for taking the occasion to hear this testimony.

10 I'd like to begin my comments today with a story  
11 from a Delta town in Mississippi. Not long ago, a single mom  
12 came into one of our offices seeking help to buy a home. She  
13 was ready to buy her own place with a yard for her family,  
14 and much like many of us in this room, she desired to  
15 leverage all her tangible and intangible benefits of owning  
16 that asset to help her family prosper. However, as we all  
17 know, getting a mortgage isn't as easy as it used to be. As  
18 she began exploring her financing options she quickly found  
19 that her affordable options were limited or nonexistent. And  
20 while she had good credit, she simply did not have the money  
21 to make the down payment.

22 well, fortunately for --

23 VICE CHAIRMAN GRUENBERG: Could you ask him to  
24 speak up, please?

25 MR. SIVAK: -- the family and for ECD/HOPE, we were

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1 able to work with her and connect her to one of our products  
2 designed for homebuyers with a solid credit record and very  
3 little money for a down payment, and I'm happy to share this  
4 story because she is still in her home today and making her  
5 payments on time.

6 DIRECTOR BOWMAN: Excuse me, Mr. Sivak. I think  
7 all of us can hear well with the exception of Mr. Gruenberg  
8 having difficulty hearing Mr. Sivak.

9 we'll check your connection, Marty.

10 MR. SIVAK: The story that I just recounted is not  
11 unique in our line of work. In 2009, 61 percent of  
12 ECD/HOPE's mortgages were closed -- that we closed were to  
13 low income borrowers, and 54 percent were to minority  
14 borrowers. Our median mortgage size last year was \$80,500,  
15 and while most financial institutions aren't able to  
16 emphasize this type of lending, we have to because this is  
17 what the borrowers in our region -- this is what our members  
18 need.

19 Finally, our charge off rate from the mortgages  
20 that we hold is currently less than 0.4 percent. We occupy a  
21 special niche in the marketplace that provides capital  
22 responsibly to creditworthy borrowers for whom an affordable  
23 lender does not exist or is not readily apparent.

24 There are many communities throughout the mid South  
25 where banks once existed, and exist no longer, in the case

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1 of the nation's largest banks, never existed at all to serve  
2 a family like the one profiled above.

3 It is for these communities that this hearing is so  
4 important, and to that end, I'd like to offer three  
5 recommendations.

6 First, CRA assessment areas need to be redefined.  
7 There are many parts of the mid South -- a region with a  
8 large and growing percentage of minority residents -- where  
9 many of the mid-size and large size banks market their  
10 products and earn income from its residents, and yet the  
11 banks do not have the physical presence or the community

12 reinvestment obligation to that area. Hence, the current  
13 assessment area criteria limit community development in one  
14 of the nation's poorest regions.

15 Second, any bank that invests in a community  
16 development finance institution should receive CRA credit for  
17 its investment to support lending and services in distressed  
18 communities and targeted populations. To define distressed  
19 communities, regulators could use the economic distress and  
20 target population criteria identified by the U.S. Treasury  
21 CDFI Fund for its financial assistance and/or New Markets Tax  
22 Credit Programs.

23 And finally, CRA should incentivize/weight more  
24 heavily creative partnerships with CDFI's. Innovation does  
25 not only occur on wall street. From the use of secondary

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1 capital in concert with the New Markets Tax Credit Programs  
2 to the development of equity funds to fill the gap left by  
3 Fannie and Freddie for the development of affordable housing,  
4 some of the nation's most creative financial thinkers have  
5 spent decades working in the community development finance  
6 industry. It's time to harness the talent within the  
7 industry by using CRA to generate the capital needed to reach  
8 more deeply into distressed markets and to make more  
9 innovative partnerships a reality.

10 Thank you for taking the time to hear our  
11 testimony, and I look forward to any questions that you may  
12 have.

13 DIRECTOR BOWMAN: Thank you, Mr. Sivak.

14 Vice Chairman Gruenberg, you have the first round  
15 of questions.

16 VICE CHAIRMAN GRUENBERG: Thank you, John.

17 I'd like to thank the witnesses for their very  
18 helpful statements.

19 Let me focus my question, much of the testimony was  
20 directed to the needs of rural communities. CRA to a certain  
21 extent has recognized rural communities face distinctive  
22 challenges and has provided some credence, including greater  
23 flexibility, in regard to the income of the residents. I'd  
24 like to ask our panelists, a number of you were addressing  
25 some of the broader issues. If those issues are addressed do

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1 you think, in effect, they are responsive to the needs of  
2 rural communities, or do you think there are distinctive  
3 issues in the rural communities that CRA needs to recognize  
4 separate and apart from changes that might be more broadly  
5 applicable. If I can ask each of the panelists to expound.

6 MS. HARNICK: Well, I'm actually going to defer to  
7 some of the folks who are based in rural communities.

8 MR. BLACK: I missed what he said in terms of what  
9 issues are addressed, but.

10 DIRECTOR BOWMAN: Marty, could you repeat the  
11 question regarding in terms of which issues you were  
12 referring to that would have been addressed?

13 VICE CHAIRMAN GRUENBERG: Well, what -- for example  
14 the assessment areas, if the assessment areas were able to  
15 capture lending outside of the area immediately around  
16 branches, would that be relevant to the needs of rural  
17 communities or are they addressing lending by rural financial  
18 institutions that would impact rural communities? I guess  
19 I'm just trying to get at the question of, in addition to the  
20 broader changes that have been talked about in regard to CRA,  
21 are they including changes in regard to the services test and  
22 the community development test, are there distinctive issues



23 that impact rural areas that need to be recognized in  
24 addition to some of the broader issues that have been raised?  
25 MR. BLACK: I would say certainly that rural

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1 America is unique. Unfortunately, rural America seems to  
2 have fallen off the national agenda.

3 DIRECTOR BOWMAN: Mr. Black, if you could, speak  
4 more directly into the microphone.

5 MR. BLACK: Rural America itself is very unique.  
6 It has fallen somewhat off the national agenda, but delivery  
7 of goods and services in sparsely populated areas is simply  
8 less cost effective. I think CRA needs to tie itself --  
9 Rural institutions seem to be less impacted by CRA. For  
10 instance, we serve a eight to nine county area in  
11 Mississippi. The target county poverty rate averages around  
12 32 percent poverty. What does CRA mean to an institution  
13 that serves a market with a 32 percent poverty rate? It has  
14 no incentive whatsoever because every loan you make is in a  
15 distressed census tract. Everybody you help is poor, from  
16 consumer loans to whatever.

17 what we need is innovative products and services to  
18 allow us in recognizing that banks have a responsibility, but  
19 this is not their sole responsibility, and rural banks more  
20 so must form strategical alliances to deliver products and  
21 services in order to reach scale and scope necessary to have  
22 impact. You make two loans, you're doing a feel good  
23 program. You make a thousand, I'll buy the tax program  
24 served over 846 people in the marketplace. It served roughly  
25 three percent of the whole county population. We want to

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1 take that to seven or eight percent of the county population.

2 We were instrumental in bringing roughly 3.5 million in tax  
3 returns, 2.2 million or so in earned income tax credits.

4 well, you go to scale and volume with programs like that in a  
5 defined geographic area, you'll begin to change the poverty  
6 rate.

7 we learned in our early history in America that you  
8 can't legislate morality. well, you can't legislate through  
9 CRA financial acumen or desire to invest in your community.  
10 We've got to tie -- and it is a matter of survival for rural  
11 financial institutions. The survival of rural America means  
12 also the survival of rural financial institutions. They're  
13 linked together like Siamese twins.

14 So we need to establish that linkage first of all,  
15 and then incentivize that linkage. But thinking that you  
16 can, through a CRA rating, mandate that one single  
17 institution can turn around a 21st century problem of an  
18 evolving economy is kind of asinine. We've got to reinvent  
19 recommending that a financial institution located in a low  
20 income market is an A-B-C, recommending that a institution  
21 located in a low income market and provide flexible hours to  
22 meet the needs of the residents of that low income market is  
23 now taking it to the next level. I'll never forget this  
24 check-casher I met, you know, and I had this righteous mind  
25 set, but I realized he was a business person providing a

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1 product that was a demand for, and he adapted to the needs of  
2 the market, whereas our rigid 19th century designed  
3 institutions were still doing business the way they did in  
4 the 19th century. And we failed to adapt to the change in  
5 the new marketplace. Banks have to reinvent themselves,

6 especially rural banks. Schools have to reinvent themselves  
7 to meet the needs of today's marketplace, and I think we're  
8 maybe focusing perhaps in the wrong area thinking we can  
9 legislate and mandate that versus incentivizing that and  
10 showing that symbiotic relationship between healthy  
11 community, healthy financial institution.

12 DIRECTOR BOWMAN: Would anyone else like to add to  
13 that?

14 MR. JOHNSON: This is Bill Johnson. We operate in  
15 a rural community, it's very, very poor. We've got five  
16 financial institutions that are in that same marketplace.  
17 Out of those five, three of them are multi-billion dollar  
18 institutions and I would dare say that they have gotten  
19 either satisfactory or outstanding rates. They've done that  
20 by investments in the metropolitan areas. They do not invest  
21 within the communities that they're in, and our poor little  
22 community, out of the three multi-s billion dollar  
23 institutions, they only give to -- \$100 for dues for a  
24 chamber of commerce, or \$100 dues for the Heart Association.  
25 They do not make a definite commitment to Habitat for

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1 Humanity or economic development, and that would be -- I  
2 would say, if anything, that they need -- when you're rating  
3 these larger institutions don't disregard the metropolitan  
4 areas, but do a better distribution of some of those dollars  
5 to the rural communities and find out what they're doing in  
6 that particular marketplace. I think you'll change their  
7 rating from satisfactory to something that may need  
8 improvement.

9 DIRECTOR BOWMAN: Ms. Branton, Mr. Sivak, anything  
10 to add?



17 us to build the building. We have purchased a \$250,000  
18 economic development center that we, in turn, give to the  
19 county for their development purposes. It charges no  
20 interest, no rent, they get it free and clear. And this is  
21 what the OTS over the years has looked at from our investment  
22 side of it, and I think that's good.

23 We make an awful lot of small loans, consumer  
24 loans, primarily because of the fact that that is our need.  
25 When you've got so many individuals that are below the

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1 poverty level it's hard to lend to these people with housing  
2 needs or let them purchase a house, but they do have  
3 financial needs and most of those are below -- most of those  
4 are below \$1000, and we will make those loans less than  
5 \$1000. That keeps them from going to the finance companies,  
6 and we have built loyalty in that fashion.

7 MR. BURNISTON: Do any of the other panelists have  
8 a perspective on that issue?

9 MR. BLACK: Access to capital is clearly an  
10 important issue, but if we look at the bigger picture in  
11 terms of revitalizing community, you have to combine access  
12 to capital with other initiatives in education, housing,  
13 healthcare.

14 MS. HARNICK: I would simply add that there is an  
15 opportunity to use the relationships you develop through the  
16 small loans, which I agree are an extremely important need in  
17 rural communities and distressed communities and pretty much  
18 all LMI communities. The trick is to try to bring those  
19 customers into -- as bank customers with savings accounts  
20 that are, you know, that meet their needs, very low cost, no  
21 minimum deposit kinds of savings accounts that don't have --

22 aren't subject to overdraft fees and other hidden fees, to  
23 bring people into the mainstream banking system.

24 MR. BURNISTON: My next question is: What specific  
25 incentives should we try to provide to encourage institutions

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1 to strive to achieve an outstanding rating? A couple of you  
2 mentioned incentives in your remarks and in your testimony.

3 MS. HARNICK, can we get it started with you?

4 MS. HARNICK: Well, I would say, first of all, I  
5 agree with the premise of the question, that incentives are  
6 needed. The kind of incentives that you, the regulators, can  
7 provide, I don't -- I don't agree with the incentives based  
8 on minimizing the number of CRA exams, but you can have  
9 incentives that give credit -- I don't have a specific  
10 example of the kinds of incentives the regulators can give,  
11 so I'll have to pass.

12 MR. JOHNSON: That's a question that probably I  
13 wouldn't be a good one to ask because our first response  
14 would be, do the right thing, and that's what we do. We  
15 don't look for some reason to get recompensated for it, but  
16 we do look at it as doing the right thing and putting money  
17 back into the community.

18 MS. BRANTON: I don't actually have any suggestions  
19 of incentives, specific incentives, but if any incentives are  
20 offered to encourage lenders to fulfil their obligations  
21 under CRA, one of them should not include decreasing the  
22 frequency of CRA exams, as Ellen has said.

23 MR. BLACK: I believe that financial institutions  
24 respond to incentives by their nature. The design and  
25 delivery would have to be carefully thought out. Some

1 examples of incentive, outstanding CRA ratings may make you  
2 qualified for federal deposits. You know, that gets banks'  
3 attention, that gets financial institutions. You receive an  
4 outstanding credit, Federal Reserve will put two percent of  
5 its deposits in institutions -- (laughing) I just thought I'd  
6 throw a number out there -- in institutions with outstanding  
7 CRA ratings. That gets peoples' attention.

8 MR. SIVAK: And I was going the other way, a  
9 discount on what they could borrow.

10 MR. BLACK: Yeah, or that type of incentive.

11 MR. SIVAK: And, again, it goes back to the points  
12 made, I think, in the previous panel about getting the grades  
13 right. You know, I think that the system would be hesitant  
14 to make deposits and discount lending rates with the number  
15 of outstanding ratings that are out there now, but if it's  
16 graded appropriately then I think it's worth looking at those  
17 types of measures.

18 DIRECTOR BOWMAN: Thank you.

19 Ms. Castro?

20 MS. CASTRO: I wanted to explore your comments -- I  
21 believe, let me see, that was Mr. Black -- I think you made  
22 the comments about community engagement, and perhaps creating  
23 community engagement as a component of the test. And so my  
24 question to you, and I'd also like to hear what the other  
25 panelists think about that approach is, one, which tests

1 would that, you know, be under, and are you suggesting that  
2 all institutions have separate community development tests?  
3 And then also, how would it be measured? How would you go  
4 about measuring something like community engagement?

5 MR. BLACK: It's clear that every rural community

6 and every community is different. Therefore, the type of  
7 engagement may need to be tailored to that community.

8           what we've discovered in our engagement initiative  
9 is that the bank has a unique power to convene diverse  
10 populations. Historical development initiative in the rural  
11 markets was grassroots driven and it was intended only to  
12 reach to a certain sector. When the bank calls a meeting,  
13 the business sector comes to that meeting, the grassroots  
14 sector comes to that meeting, municipal government comes to  
15 that meeting, the education sector comes to that meeting  
16 because of the perceived influence of the bank in that  
17 community. So we're able to convene diverse populations that  
18 other institutions have a hard time getting in the same room  
19 at the same time.

20           By doing that, we're then able to create a  
21 community planning process that's inclusive of the entire  
22 population versus segmented, the way it's historically been.  
23 And I think financial institutions have that power, just as  
24 we all responded to you all's invitation here today. You  
25 have a power to convene, and banks have a power to convene in

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1 the smaller rural markets.

2           MS. CASTRO: So are you suggesting though that that  
3 engagement be measured as part of the examination, that it be  
4 included in one of the existing tests or in a new test such  
5 as a community development test, an overall community  
6 development test?

7           MR. BLACK: A slightly newly designed test.  
8 Because I also would say to you, community engagement may be  
9 more riskier than lending. Lending is a passive strategy  
10 that depends on somebody to walk through that door with an



11 idea and ask you for money to finance it. Engagement  
12 requires us to walk out that door and engage the community  
13 and create expectation, and ask any football coach in America  
14 what happens when you create expectation and don't meet it.  
15 You lose your job.

16 So creating expectation is -- You can't create  
17 change without creating expectation, but when you do, you  
18 can't put it back in the box.

19 MS. CASTRO: Do any of the other panelists have any  
20 thoughts regarding including community engagement in a part  
21 of the community development test or some other one of the  
22 tests that currently exists?

23 MR. SIVAK: I think putting it in part of the  
24 community development test would be a good place to put it.  
25 I think, hearkening back to the conversation about the

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1 strategic plan option, I think that's definitely a place that  
2 should be explored even further. You know, I thought the  
3 comments about, you know, getting community groups to engage  
4 prior to a CRA assessment or examination, they're pertinent,  
5 but at the same time, if you're -- you know, if there's a  
6 proactive requirement to engage in the strategic planning  
7 option around community reinvestment -- And there's different  
8 things you can look at, too. It would be like there's a  
9 bank, a pretty large bank from Mississippi that, you know,  
10 they have a CRA advisory council and a number of the other  
11 banks, you know, in the area don't, and that's a forum that  
12 they can use to convene community members. And if they  
13 wanted to engage in the strategic planning process, not only  
14 would they have community members there, a number of those  
15 community members would probably facilitate more input.

16 And so I think parsing out the notion of being

17 forward-looking versus backward-looking in the community  
18 development test is important. I think the strategic  
19 planning option is something that can be looked at as CRA has  
20 looked at. And again, the community engagement piece,  
21 responding to community needs, that's critical to getting the  
22 mix right.

23 MR. JOHNSON: Just -- excuse me. Go ahead.

24 MS. HARNICK: No, go ahead.

25 MR. JOHNSON: I was just going to say, we've been

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1 fairly treated through the years. When the examiners come in  
2 they do listen to us, and do listen to and look at the  
3 marketplace that we're in. So, in all fairness, they have  
4 come in and the regulators have reviewed what we're doing and  
5 look at more than just one specific area, so.

6 DIRECTOR BOWMAN: This is actually a question for  
7 the entire panel, and it's going to be sort of an open-ended  
8 question, but I also would like you to narrow it, as you'll  
9 see in the followup which is: what services are particularly  
10 valuable for distressed underserved areas? And the followup  
11 is: How could we, the agencies, amend our rule in such a way  
12 to encourage institutions to be -- to provide such services?  
13 Think outside the box, inside the box, whatever works for  
14 you, whatever might work in your community.

15 But, Ms. Harnick, I'll speak with you.

16 MS. HARNICK: Well, I'm going to be repeating much  
17 of what was said on the previous panel. I think what is  
18 absolutely essential are opportunities for real savings, and  
19 so savings accounts that are specifically designed to meet  
20 the needs of these areas that have actual uptake. And it  
21 means being creative about branch location, creative about

22 branch hours, it means having delivery channels that aren't  
23 simply in traditional branches, it means bringing people in  
24 with the kinds of low cost transaction services that they  
25 need, but using that to bring them along to develop -- to use

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1 savings accounts and the kinds of accounts that don't -- that  
2 are actually helpful and not wealth strapping.

3 And how can the agencies better incent that? I  
4 think it has to -- some of this -- maybe examiner training to  
5 focus on this, and I think it's also -- there is -- I know  
6 this is a broad recommendation and not just limited to rural  
7 areas, but I do think that looking beyond the geographic  
8 boundaries of the brick and mortar branches, and looking at  
9 the activities of affiliates and requiring banks to provide  
10 these services in the communities where they're taking  
11 deposits or earning fees, without regard to whether they're  
12 linked to a branch, I think is really essential.

13 DIRECTOR BOWMAN: Mr. Johnson?

14 MR. JOHNSON: I can only respond to you from past  
15 experience, and we push savings accounts versus the checking  
16 account. Our customer is not highly educated and they get  
17 confused on checking accounts and transactional accounts, and  
18 they in turn have overdrafts, returned checks, and then that  
19 causes -- it just mushrooms from there. So we will -- when a  
20 customer comes in and wants to open up a checking or a  
21 savings account we'll sort of quiz them a little bit and ask  
22 them exactly what they're wanting to do, and come to find  
23 out, it's just really a savings account that they want. We  
24 have taught them that they can put in five dollars a week or  
25 a dollar a week, and that seems to have helped, and they will

1 build that account up.

2           One of the other things that we do -- and again, we  
3 may not be the example to follow -- but we do not charge for  
4 a lot of our services. If a customer comes in, needs a  
5 cashier's check, or an individual, if he's got cash,  
6 obviously if it's good transactional money, we'll issue a  
7 cashier's check for that customer at no cost. We will look  
8 for -- to accept direct deposits, whether it be for a  
9 savings -- I mean, a social security check or unemployment  
10 check or whatever it may be, we encourage them to put it in a  
11 savings account, then they can come in, make the withdrawal,  
12 see the withdrawal and know exactly how much money they have  
13 got in the account, and we do not charge for that service.

14           So again, we give a lot of our services away, so we  
15 probably are not the prime example to follow.

16           MS. BRANTON: Well, my comments would definitely be  
17 outside the box. And I can say it in two words, and that's  
18 capacity building.

19           In many rural areas you have nonprofit  
20 organizations, for-profit entities that are capable of  
21 developing that community. But you also, in other rural  
22 areas, will have nonprofit, for-profit groups that aren't  
23 really versed well enough in development and they need their  
24 capacity enhanced. I would think that that would be  
25 something the banks could work with, especially in a small

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1 rural -- I'm talking rural, so I'm not talking city of  
2 Atlanta picking up a couple of inexperienced nonprofits and  
3 trying to build their capacity -- but in a small rural area  
4 they pretty much know everybody, and if the bank would  
5 provide some staff time to assist these nonprofits in various

6 aspects to build their capacity so that they can do what they  
7 were trying to do, and that is develop their community.

8 DIRECTOR BOWMAN: Thank you.

9 Mr. Black?

10 MR. BLACK: Clearly, asset building products are  
11 vital in low income markets, IDAs, credit building CDs, et  
12 cetera, in terms of product offering, alternative payday  
13 lending products, it's clear that those abusive payday  
14 lenders tend to thrive in low income distressed markets.  
15 But moreover, offering the product and delivery are two  
16 separate functions, and I think that you need to tie CRA to  
17 delivery and not just offering. But here comes the Catch 22.

18 I think the average profile you look for in a bank employee  
19 doesn't make them the right person to be an intermediary in  
20 the community to grassroots populations who might want this  
21 product. It's a different skill set, has been my  
22 professional observation. Therefore, you need those  
23 strategic partnerships to help you get this product to the  
24 target population, because your bank employees are not well  
25 suited for it because you didn't hire them for that skill

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1 set. You hired them for another skill set, but you're asking  
2 them to do something they're not well suited to do.

3 Hence, I believe it's strategically important for banks to  
4 partner with grassroots social institutions to help them  
5 deliver these products that are targeted to people who have  
6 obstacles to accessing mainstream financial services, because  
7 you're just -- you know how to drive a car, but you don't  
8 know how to drive a race car.

9 DIRECTOR BOWMAN: Mr. Sivak?

10 MR. SIVAK: I think absolutely check cashing

11 services and affordable payday lending alternatives is  
12 imperative when you're looking at rural communities, in terms  
13 of services that can be provided and covered under the  
14 service test.

15 I also think that if you look at rural areas the  
16 demographics are changing. Products that allow immigrant  
17 populations to engage in the marketplace -- and I'm not an  
18 expert on that -- but that includes, you know, remittances  
19 and again -- So, as you're doing regulations, well how is the  
20 marketplace changing, how are the demographics changing in  
21 rural areas, and insuring that the services provided line up  
22 with those trends.

23 DIRECTOR BOWMAN: Good. Thank you.

24 Vice Chairman Gruenberg, second round.

25 (No response)

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1 DIRECTOR BOWMAN: Mute button, Marty?

2 VICE CHAIRMAN GRUENBERG: Thank you.

3 (Laughter)

4 VICE CHAIRMAN GRUENBERG: Let me ask a question  
5 that -- since all of you are familiar with delivery of  
6 financial services in rural communities, let me ask you an  
7 anecdotal reaction. I think the general assumption is that  
8 financial -- delivery of financial services in rural  
9 communities is predominantly done through local community  
10 banks, and I was wondering what are the challenges in rural  
11 areas as to geographical distances, and I was wondering to  
12 what extent would the increasing delivery of financial  
13 services through technology has impacted financial service  
14 and delivery in access to rural communities. In other words,  
15 to what extent are folks in the rural areas able to access

16 financial services technologically, whether it be a local  
17 community bank or a larger regional institution, and is that  
18 impacting and changing the nature of financial service  
19 delivery in rural communities? And I was wondering if I  
20 could -- based on your personal experience and observation  
21 get some reaction on that?

22 MR. JOHNSON: This is Bill Johnson, again, John.

23 From personal experience -- and this is something  
24 that we have been monitoring for the last several years  
25 now -- but in our rural community, and the fact that

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1 technology is there, has not been an impact -- big impact on  
2 whether customers are banking with us or not banking with us.  
3 They have access to an individual, they have access to decent  
4 banking hours, and they can visit with us after hours on  
5 occasions. We're at their disposal pretty much 24 hours a  
6 day. Sometimes we get phone calls at home, and don't do the  
7 transaction until the next day, but they like coming in or  
8 picking up the phone and talking to someone face-to-face. So  
9 the technology and the computers are not a big issue with us  
10 at this particular time. But, again, it is something that we  
11 are monitoring on a regular basis.

12 MR. BLACK: I would agree that there is a social  
13 orientation to rural America. Rural America is embracing  
14 technology, but not quite at a speed as some other markets,  
15 and face-to-face, eyeball-to-eyeball contact is still king in  
16 rural America, but clearly, utilizing technology would help  
17 overcome some of the cost problems in delivering services,  
18 and hopefully it is the future.

19 But I think an institution would have to commit  
20 itself to it over an extended period of time, recognizing

21 that it will be unprofitable early, and take hold over a  
22 multi-year delivery system where it begins to take hold and  
23 people become comfortable with an information kiosk in your  
24 bank, for instance. And at first they walk around it -- and  
25 we've experimented -- they walk around it as if it's some

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1 kind of foreign object, but -- and that's what I mean by  
2 committing to a protracted development process. This is not  
3 a quick fix, especially when you're dealing with social  
4 orientation, and you've got to be able to allow banks to go  
5 through a protracted process to overcome multi generations of  
6 legacy of poverty, quite frankly.

7 DIRECTOR BOWMAN: Anyone else?

8 MS. BRANTON: I would like to say that I'm a little  
9 bit puzzled by what I'm hearing, as far -- no one's mentioned  
10 that low income family who wouldn't have access to the  
11 internet except through libraries or maybe schools, but they  
12 wouldn't readily have any access, and if they had it, it  
13 wouldn't be fast enough to actually utilize the services of a  
14 bank via the internet.

15 DIRECTOR BOWMAN: How about cell phone technology,  
16 the availability of cell phones and --

17 Marty, I apologize for interjecting.

18 MS. BRANTON: well, I have been in some areas of  
19 west Alabama where there is no signal. So there are many  
20 rural areas across the country where the signals are not that  
21 great, so the cell phones would not be that useful.

22 MR. BURNISTON: There are days when I would like to  
23 find those areas.

24 (Laughter)

25 MS. BRANTON: I can give you a long list of them.



1 (Laughter)

2 DIRECTOR BOWMAN: Okay. Mr. Burniston?

3 MR. BURNISTON: Well, actually the questions that I  
4 had have been addressed as part of your answer to other  
5 questions, so I don't have another round. Thank you.

6 DIRECTOR BOWMAN: Ms. Castro?

7 MS. CASTRO: I do have a question. Because of your  
8 talking a lot about which services and products may be needed  
9 for rural communities, my question would be: I think that  
10 there's been some concerns that there needs to be a different  
11 weighting within the service test, there needs to be more  
12 focus on services versus perhaps lending. Can you share your  
13 thoughts regarding how we evaluate, you know, the lending  
14 test and the services test? Currently, more weighting is on  
15 lending. Do you have thoughts on whether that's accurate,  
16 and if so, do you have any ideas in terms of what the  
17 weighting should be?

18 MR. JOHNSON: Again, maybe I'm -- I'm always ending  
19 up with an outstanding rating, so maybe I shouldn't be the  
20 right person to ask. But as far as weighting is concerned,  
21 it is important to look at the dollar figures that are borne  
22 out. I know we can't monitor -- by regulation you can't  
23 monitor the home mortgages, but in our rural community, where  
24 the income is so low, we need to look at the dollar  
25 figures -- the average dollar figures that are being made,

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1 and the income numbers that that particular customer may  
2 have. He may not qualify for a \$30,000 mortgage loan, but he  
3 could qualify for \$1000 insurance loan, for instance, or a  
4 \$500 payday loan. And those are the types that I do think

5 get swept under the carpet sometimes -- or missed, not  
6 swept -- but missed, where there is no monitoring out there  
7 for those types of loans.

8           As I had indicated earlier, there are three  
9 institutions in our community that are multi-billion dollar  
10 institutions, and they will not make a \$1000 loan. They want  
11 to put the customer into a high interest rate credit card,  
12 and they usually don't understand that. They understand  
13 monthly payments, but they don't understand getting a  
14 statement every month and that being a revolving credit, and  
15 that gets them in trouble.

16           MS. HARNICK: well, I'm going to give an answer  
17 that doesn't directly answer your question, because I would  
18 say more important, to my mind, than the weighting between  
19 the various tests, is really incenting quality lending and  
20 quality services and incenting community development. And  
21 when I hear things like payday loans I just want to  
22 emphasize, I agree fully there is a need for small dollar  
23 loans. I hope we don't confuse small dollar loans with  
24 short-term loans, which is what I think of when I hear  
25 payday.

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1           So, you know, incenting a better job of providing  
2 these services and a better job of investing in community  
3 development with institutions, it has to be part of the  
4 program. How I would weight it relative to lending, to me,  
5 is a secondary question.

6           MR. BLACK: I spoke about the symbiotic  
7 relationship between a bank and a community. well, that  
8 relationship can also become parasitic between a bank and  
9 relationship when banks siphon off local deposits and lend it

10 in markets outside that distressed area. The lending test  
11 assures that they lend inside their service area. So, yeah,  
12 we invest our values. But I guess the statement is, it's  
13 not, by itself, the end all be all of testing in the 21st  
14 century economy, as it's evolved. Clearly, service and some  
15 other things are just as important. But we don't want to  
16 allow banks to siphon off local deposits and put in other  
17 markets, high growth markets, for instance.

18 MR. SIVAK: In the earlier panel there was some  
19 discussion around tracking outcomes, in particular if there's  
20 an investment made and the intermediary, and that's what I'm  
21 going to talk about. You know, there is the ability to do  
22 that. If you look at, if there's a bank investment to  
23 community development financed institution, CDFIs didn't  
24 receive financial assistance or New Markets Tax Credits from  
25 the U.S. Treasury. They have to report loan level data

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1 through the community investment impact system. So CDFIs are  
2 wired to do this, required to do it and, you know, the  
3 ability to track community development investments, the  
4 infrastructure is in place.

5 And so, while I don't -- I don't feel -- I'm not  
6 able to speak as to the weight of the grading. Again, I  
7 think the comments about tracking outcomes, specifically when  
8 you're working with intermediaries to fill a space, is very  
9 important, something that should be included and weighted  
10 more heavily, and I also want it on record saying the  
11 infrastructure is there to track those.

12 DIRECTOR BOWMAN: Rather than asking a question  
13 myself, I think what I'd like to do is give everyone an  
14 opportunity, one minute each, to any concluding remark  
15 statements, more complete answers to some of the questions

16 that were asked.

17 And I'll start with you, Ms. Harnick.

18 MS. HARNICK: Sure. I think I'd like to just hit  
19 on perhaps two points that maybe I didn't hit on earlier. I  
20 talked about the services, I think.

21 I can't emphasize enough how important it is to  
22 incent investments with CDFIs and to make sure that examiners  
23 are sensitized to what it means to have meaningful community  
24 development investments, and I think that the emphasis on  
25 this really needs to be ratcheted up because there is bases

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1 in which, without CDFIs, the needs just don't get met.

2 The second thing I do want to emphasize is the need  
3 to not just look to the new Consumer Financial Protection  
4 Bureau to ferret out inappropriate lending in underserved and  
5 distressed and LMI communities. I think we have very high  
6 hopes for the new bureau, we think it's going to do a lot of  
7 good. I think, as you made the point, it's the -- the bureau  
8 is not -- it's specifically not empowered to enforce as to  
9 most banks and thrifts, and so I do think that negative  
10 consequences for bad lending should most definitely be a part  
11 of the CRA rating process.

12 DIRECTOR BOWMAN: Thank you.

13 Mr. Johnson?

14 MR. JOHNSON: Again, my regulators have looked at  
15 us fairly, in my opinion, and hence the rating.

16 But in looking at a broader picture, if you've got  
17 a branch in there, instead of looking at the corporate office  
18 and looking at what they're doing in the metropolitan areas,  
19 you need to look at what they're doing at each individual  
20 branch and it needs to be broken down individually. So if

21 you've got a branch in Marion, South Carolina, what is that  
22 particular branch doing to help the community, not go into  
23 Charlotte and what are they doing in the Charlotte area,  
24 which they may be doing an outstanding job, but they're not  
25 doing anything in the local community. So to expand the

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1 examination to the branches would be my recommendation.

2 DIRECTOR BOWMAN: Thank you.

3 Ms. Branton?

4 MS. BRANTON: I would like to say that, in addition  
5 to incentives, there should also be some consequences for  
6 poor performance. As the National Community Reinvestment  
7 Coalition has suggested, the regulators could find -- fine  
8 lenders -- sorry -- for repeated poor performance and use the  
9 funds collected to establish a community development lending  
10 pool -- but, of course, you would not be a part of that.

11 (Laughter)

12 MR. JOHNSON: I appreciate it.

13 MR. BRANTON: And in addition to that, institutions  
14 with lower ratings could be required to establish plans for  
15 improvement, publicize them, report to the public and  
16 regulatory agency periodically, requiring -- regarding their  
17 compliance with their plans.

18 DIRECTOR BOWMAN: Thank you.

19 Mr. Black?

20 MR. BLACK: By virtue of their charter  
21 responsibilities, banks have always been economic development  
22 organizations, but in the 21st century economy that role has  
23 evolved. One of the best articles I ever read was called,  
24 "Rewarding X while Hoping for Y." You will get the behavior  
25 you incentivize. Therefore, I truly salute you all for

1 having these types of hearings and getting information, and  
2 as you design incentives be careful to design incentives that  
3 give you the behavior you seek. The game has changed, and if  
4 you incentivize what you once incentivized, you'll get what  
5 you used to get.

6 And so, banks have a unique role to play. It's  
7 clear their physical location in distressed markets allow  
8 them to engage in long-term development activities that other  
9 service entities can't engage in. It's clear their role as a  
10 central convener can benefit existing initiatives. It's  
11 clear that their ability to originate consumer and commercial  
12 and educational lending can have a direct impact. But as  
13 standalone organization, they have limited impact, and I hope  
14 that you all begin to look in terms of how to make banks not  
15 be standalone institutions in their role as a catalyst for  
16 community economic development.

17 DIRECTOR BOWMAN: Thank you, sir.

18 Mr. Sivak, you get the last word.

19 MR. SIVAK: Heavy responsibility.

20 The -- actually, there's one question that isn't on  
21 the record, I think it's important to get on the record.  
22 When it comes to small business lending in rural areas, I  
23 don't know if we have the data to really know what's going  
24 on, and part of that is driven by the requirements of who  
25 reports and who doesn't. And I know there's challenges in

1 terms of reporting requirements for requiring the small banks  
2 to submit that data, but I do think that as we look at the  
3 landscape, having that picture, having an accurate picture of  
4 what kind of small business lending is going on in rural

5 areas is important.

6 And then I'll just close, you know, with the points  
7 that I made earlier. Again, you know, community development,  
8 finance institutions, you know, they've been around for a  
9 long time now. They have an established track record and  
10 they fill a market niche that many banks don't, and by using  
11 the CRA to develop innovative partnerships and partnerships  
12 that work by incentivizing investment, I think, we'll be able  
13 to reach more people through the banking system. Thank you.

14 DIRECTOR BOWMAN: Thank you very much.

15 And with that, I will thank our second panel for  
16 coming here today and sharing their views. We are now in  
17 recess until 1:15. Thank you very much.

18 (Whereupon, a lunch break was taken.)

19 VICE PRESIDENT GREENE: We're going to go ahead and  
20 get started, and I'll turn it over to Director Bowman.

21 DIRECTOR BOWMAN: Todd, thank you very much.

22 welcome back, Everyone. I hope you enjoyed your  
23 lunch.

24 Our next panel, Mr. John O'Callaghan --

25 MR. O'CALLAGHAN: Yeah.

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1 DIRECTOR BOWMAN: -- who is the President and Chief  
2 Executive Officer of the Atlanta Neighborhood Development  
3 Partnership; Mr. Peter Skillern, who is the Executive  
4 Director of the Community Reinvestment Association of North  
5 Carolina; Mr. Milton Bailey, who is the President of the  
6 Louisiana Housing Finance Agency; Mr. Bernie Mazyck --

7 Do I have that correct?

8 MR. MAZYCK: Mazyck.

9 DIRECTOR BOWMAN: Mazyck (pronouncing) -- who is

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10 the President and Chief Executive Officer of the South  
11 Carolina Association of Community Development Corporations;  
12 and Mr. Tom Bledsoe who is the Chairman of the Gulf Coast  
13 Housing Partnership.

14 And if I could, I would like to repeat the  
15 instructions that we gave earlier to the panelists. Each  
16 panelist will have five minutes to present. The timekeeper  
17 at the front of the room will indicate when there is one  
18 minute remaining, and when the time is up, and she will throw  
19 things if you go too far over.

20 (Laughter)

21 DIRECTOR BOWMAN: Following your presentations, I  
22 will start the questions -- the rotation of the questions  
23 among the principals. Each principal will have five minutes  
24 to ask questions, and if time permits, we will do a second  
25 round of questions.

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1 Since this event is being recorded, we would ask  
2 that you please remember to speak into the microphone.

3 And with that, Mr. O'Callaghan, if you would go  
4 ahead.

5 MR. O'CALLAGHAN: Right. Thanks so much.

6 I'm with the Atlanta Neighborhood Development  
7 Partnership, ANPD. We are a 20-year-old not-for-profit  
8 focused on mixed income housing and creating opportunities  
9 throughout metropolitan Atlanta for people to live near  
10 opportunities.

11 Over the past two and a half years, we are living  
12 that mission by focusing on this region's foreclosure crisis  
13 because the neighborhoods we have been serving throughout our  
14 history are at extreme risk.

15 We're an active member of the Housing Partnership



16 Network, which is a peer network and business alliance of  
17 many of the nations top performing, nonprofit housing  
18 developers.

19 Georgia and metropolitan Atlanta have been  
20 devastated by this housing and foreclosure crisis. During  
21 the first six months of this year, Georgia moved up from  
22 sixth -- excuse me, from seventh to sixth place in national  
23 foreclosure rankings. Metro Atlanta is actually the nation's  
24 third most vacant region only behind Las Vegas and Detroit in  
25 the number of housing vacancies. why here? why in Atlanta?

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1 Some of it is because we have been blessed by a history of  
2 inclusion or blessed by the fact that in this community we  
3 rank second in the nation's number of African-Americans.  
4 Many folks born here, but a lot of folks who have chosen to  
5 live here. Unfortunately, predatory lending and mortgage  
6 fraud has disproportionately impacted that community. And  
7 Atlanta ranked fifth for subprime loans and third for  
8 mortgage fraud. Today we know that African-American  
9 borrowers are 50 percent more likely to be at imminent risk  
10 of foreclosure than their non-Hispanic-like counterparts.

11 Atlanta's foreclosure crisis started here in the  
12 city of Atlanta, but it has spread like a cancer. Currently,  
13 Atlanta has the highest percentage of poor people in its  
14 metro region that actually live outside of the city limits,  
15 85 percent. Before the Olympics, there might be measured in  
16 dozens, the number of communities and neighborhoods that were  
17 really at significant risk. We measure those neighborhoods  
18 at risk now literally in the hundreds because of the  
19 foreclosure crisis.

20 The federal government partnering with lenders,

21 housing counselors, and others are working every day to help  
22 families facing foreclosure to keep their homes. No doubt  
23 more can be done and it can be done better, but there is a  
24 focus there. Unfortunately, this is only half of the formula  
25 needed to restore neighborhood values that have plummeted.

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1 We must focus equal attention on efforts to remove vacancies  
2 once they occur. Again, we are already third highest in  
3 vacancies.

4 We've got to restore market comparables and create  
5 quality reinvestment by new homeowners and private investors.

6 CRA needs to provide incentives that recognize the critical  
7 role private capital plays in larger neighborhood  
8 stabilization efforts.

9 The response needs to be twofold. We need to look  
10 at home ownership opportunities and enhancing that as well as  
11 enhancing investments of responsible investors. A Georgia  
12 Tech professor who has worked with the Fed here, Dan  
13 Immergluck, has done studies on Fulton County for sales at  
14 100,000 or below. The vast majority and really all of the  
15 homes that are being sold are going to investors. Very few  
16 are going to home owners. In order to breathe life back into  
17 struggling high foreclosure neighborhoods we need credit  
18 available for homeowners and for these investors.

19 I'll give an example of a couple of products. We  
20 need innovative single-family purchase mortgage loan  
21 products. Currently you can buy a house for 35 cents on the  
22 dollar. It's not about affordability. We need pilot  
23 projects targeted towards people with 620 credit scores or  
24 below that may be have been paying their rents at one time  
25 and the mortgage payment would be less. We need greater use

1 of the FHA 203K loan product, a great product that allows  
2 people to rehab their homes, but currently only two of the  
3 larger national lenders in our market and only a couple of  
4 smaller lenders are even offering the product. It needs to  
5 be marketed more fully.

6 we need products for investors as well. There are  
7 good investors who put value into neighborhoods and restore  
8 and bring up neighborhood costs. We need products that help  
9 with lease-purchase transitions for nonprofits and other  
10 would-be investors that are trying to make that happen. We  
11 also need products for good investors so they do not have to  
12 go after hard money lending opportunities and merely keep  
13 properties vacant and really not invest in future value.

14 Thank you so much.

15 DIRECTOR BOWMAN: Thank you.

16 Mr. Skillern?

17 MR. SKILLERN: Hi, my name is Peter Skillern, and I  
18 am Executive Director of the Community Reinvestment  
19 Association of North Carolina, and I've been a CRA activist  
20 for 20 years challenging financial institutions around their  
21 lending practices, and during that time I have seen amazing  
22 strides in lenders making credit available for minority and  
23 low income households in communities and fostering community  
24 development and have made a fantastic difference in the  
25 neighborhoods. I have also seen over that time a decline in

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1 enforcement of the CRA law and a retreat of the lenders from  
2 those commitments in affirmative actions leading to fewer  
3 deposit services and higher costs. The past two years the

4 HMDA data has indicated a dramatic decline in lending to  
5 African-Americans in North Carolina. We have found that  
6 banks are pulling back from their investments in CDFIs and  
7 are much more reluctant to talk with low income advocates.

8 I have also found that redlining that we have  
9 documented has simply gone un -- unaddressed, and the civil  
10 rights laws have not been enforced to their full extent.

11 And I really appreciate this conversation because  
12 what I hope comes out of it is a renewed sense of justice  
13 within CRA framework and that these trends are reversed and  
14 that our potential and promise in CRA is fully realized.

15 I have to speak to two things. One is the  
16 particular needs of rural areas and CRA's recommendations on  
17 how to improve that, and second are recommendations for CRA  
18 overall that will help neighborhoods regardless of their  
19 geographical area.

20 For rural areas, my Board member Resea Willis from  
21 Brunswick Housing Opportunities, Brunswick, North Carolina,  
22 said, "CRA doesn't exist in rural areas. When you go to a  
23 big branch office they say, 'Call corporate headquarters,'  
24 and small banks may or may not play in that game, and the  
25 result is, it's hard for me to get grants, loans, and

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1 partnerships to serve this community."

2 To understand the policy behind her statement,  
3 small banks are evaluated once every four to five years.  
4 Intermediate banks, when they are surveyed, are allowed to  
5 choose one assessment period to look at. Big banks typically  
6 have one rural area as part of their -- each state analysis.  
7 The result of that is that small banks located even in rural  
8 areas are rarely evaluated, intermediate banks often choose  
9 their urban areas and have never been evaluated in the rural

10 component, and big banks, again, are able to select out where  
11 they want to be looked at, limiting the coverage, so you have  
12 vast assessment areas that are not effectively covered.

13 I do not believe that full scope reviews are as  
14 effective as -- for one limited area -- are as effective as a  
15 broader, thinner review over whether areas are being covered.

16 The gentlemen from Pee Dee Federal Savings is my new hero.  
17 Love the way you run your bank, and he's darn right, exactly  
18 right when he says he's pulling his weight, but he's not  
19 seeing the big banks at the end of the block pulling their  
20 weight, and that's because those bank branch managers are not  
21 evaluated or held accountable to incentives to perform around  
22 CRA.

23 The other change in examinations I would offered is  
24 that CRA is supposed to evaluate the context for performance.

25 And the context for performance in rural areas is different.

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1 Agriculture plays a greater part. Small business plays a  
2 much greater role. Manufactured housing is a much broader  
3 dynamic. In Bladen County it is almost 70 percent of housing  
4 starts. Those means they have different credit needs and  
5 different investments. The partnership opportunities are  
6 also different. Rural areas don't have an Atlanta Area  
7 Neighborhood Development Corporation in every county.

8 We recommend that if the context changes, so should  
9 the incentives, and we urge an emphasis around small business  
10 lending and investments into community development  
11 corporations and partnerships as a priority.

12 But there are some other, bigger changes that also  
13 need to be made in CRA that have rural implications. Race is

14 not considered by the institution and how they are  
15 implemented, and this is a big problem. We'd all love to  
16 live in a society free of race as a dynamic, but we don't.  
17 There is the act of commission, discrimination by commission,  
18 like disparate treatment, and there is discrimination by  
19 omission, which, as one bank told me, "It's not that we  
20 discriminate against African-Americans, it's just that we  
21 don't lend to them," and that kind of captures why you need  
22 CRA to make sure there is an affirmative outreach in lending  
23 to them.

24 Civil rights enforcement must be strengthened. We  
25 file our own cases with the Department of Justice because the

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1 Federal Reserve will not file ours for us.

2 On the issue of assessment areas, predatory lending  
3 and affiliates, all of them are intertwined to the extent  
4 that CRA can be used as a tool for oversight about whether  
5 folks are evading oversight, then that rule needs to be  
6 changed. I would like to give one good example. The FDIC  
7 evaluated Republic Bank, and they gave them good marks for  
8 all their outstanding lending in the Louisville, Kentucky  
9 area, and then said, "Your refund anticipation lending is a  
10 problem," and use that CRA tool as a way of looking at their  
11 lending that impacted LMI across the country.

12 By counter, by positive example, MetaBank out of  
13 Iowa is evaluated only on its deposits in its 13 communities,  
14 but more than twice the deposit base comes from its prepaid  
15 cards across the country, which are becoming an alternative  
16 to payday loans. That needs to be evaluated, but their CRA  
17 evaluation doesn't evaluate that.

18 The evaluations are becoming meaningless, not just  
19 with great inflation, but just on the surface evaluation

20 about whether a bank is doing a satisfactory or outstanding  
21 job. We have lost faith that this evaluation is effective.

22 And finally around enforcement, it's only limited  
23 to the time of community comment, according to attorneys'  
24 rulings, but during the challenge period, as a CRA activist,  
25 I can attest to the fact that our comments are not valued.

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1 The preference is getting to the evaluation, the CRA  
2 evaluation, given by the regulator. So there is a certain  
3 argument there about where our input is. The current comment  
4 challenge is set up for adversary, it's set up for a fight.  
5 I make a living making a fight. I don't mind fighting, but  
6 it's not effective. The bank suffers, the community suffers,  
7 and we're not getting an improvement in lending.

8 I strongly recommend relooking at the framework for  
9 the comment challenge that complements a strong evaluation  
10 enforcement regime and allows us to look forward on how we  
11 can improve on the past and how communities will benefit from  
12 a merger, not simply getting into a pissing contest about  
13 whether the merger should go forward or not.

14 Thank you very much.

15 DIRECTOR BOWMAN: Thank you.

16 Mr. Bailey.

17 MR. BAILEY: Good afternoon. This discussion  
18 couldn't come at a better time in our history. On the wake  
19 of capital market crisis and all the other stimulus that have  
20 come into affordable housing and affordable housing finance  
21 by the new administration and the challenges that we still  
22 have ahead, this discussion is very well timed and very well  
23 placed. I thank you for it.

24 I have, I guess, the dubious and overwhelming honor

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25 to represent the Gulf States. Although I'm from Louisiana,

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1 our partners and I are in the same circumstance, and that is,  
2 not only are we having to deal with a global economic crisis,  
3 capital crisis that is driven a loss of equity to the amount  
4 of 40 percent out of our financing, but we're looking at  
5 banks that are unwilling to lend in devastated communities.  
6 And with FannieMae and FreddieMac out of the lending business  
7 pretty much, other than for single family development, being  
8 able to develop tax credit properties is getting even more  
9 and more difficult.

10 when you think in terms of rental housing and  
11 providing loans for rental housing, that market is drying up  
12 as well in terms of being able to go to a reliable source for  
13 financing options. The lack of home buyer credit, the  
14 devaluation or downgrade of home buyer credit in the wake of  
15 national disasters such as we have experienced in the South,  
16 the raising of the FICO scores to 620 has really added  
17 tremendous pressure to our ability to provide for the  
18 needs -- affordable housing needs for the populations that we  
19 represent. You add to that the lack of lending product or  
20 single family housing development, rental housing  
21 development, national and multi-national or multi-regional  
22 banks not focusing on rural areas of our country and  
23 preferring to invest in the metropolitan areas, with fewer  
24 healthy investor institutions in the market, both the bond  
25 side as well as the tax credit side, has really added to

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1 those problems, and the biggest heartbreak of all has been  
2 the fact that, as it goes, disaster credits were left out of



3 the American Recovery Act of 2009. So we were not able to  
4 exchange those credits.

5 All of those things conspire to creating an  
6 environment where your southern states, your regional, your  
7 rural areas, and your emerging metropolitan areas are at a  
8 tremendous disadvantage and this is where CRA can come in,  
9 not only in terms of identifying new investors, creating  
10 single-family, multi-family purchase opportunities for  
11 investment banks, but bringing in investment banks and other  
12 lenders into -- under the CRA umbrella would be the most  
13 desirable approach. Pairing CRA credits with the advent of  
14 new federal programs, like the NSB program, to eliminate  
15 LIHTC would be another way that we would like to see CRA  
16 used. Weatherization programs, the conversions of  
17 inefficient energy programs and inefficient housing to more  
18 efficient housing. And the list goes on.

19 I think that CRA also has a more important role in  
20 terms of community stabilization than it has taken on in the  
21 past. The placement in earlier discussion of community  
22 lending institutions branch offices not only serves -- in the  
23 communities not only serves as a resource for residents of  
24 those communities, but also serves as tremendous economic  
25 development anchors for those communities. Education is very

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1 important. Making sure that CRA credit is given to education  
2 as well as programs that sponsor long term awareness in  
3 adults, and life-skill training is very important and credit  
4 management and useful credit application and how savings is  
5 important. All that's important, too, but when you are  
6 talking about poor folks, when you are talking about  
7 individuals who are distrustful in the wake of a national  
8 crisis, as the one we've seen, saving -- the best way we can

9 help them is by creating tangible opportunities because then  
10 the house becomes the retirement fund with the poor. So if  
11 there are ways we can adapt, or readapt our CRA to really  
12 going after where the greatest needs are, and that is wealth  
13 building and economic development in communities, that would  
14 be most beneficial.

15 DIRECTOR BOWMAN: Mr. Mazyck, could you hold on one  
16 second.

17 Vice Chairman Gruenberg, are you on the line?

18 VICE CHAIRMAN GRUENBERG: Yes, I am.

19 DIRECTOR BOWMAN: Very good. Thank you.

20 Mr. Mazyck?

21 MR. MAZYCK: Good afternoon. My name is Bernie  
22 Mazyck. I am with the South Carolina Association of  
23 Community Development Corporation. We have a 15 year track  
24 record of advancing community-based economic development in  
25 distressed areas and under invested areas throughout the

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1 state of South Carolina, and I would like to join my  
2 colleagues in thanking the regulators for this joint hearing.

3 The timing, I would agree, is perfect.

4 Meaningful reforms in CRA will ensure economic  
5 recovery that promotes sustainable lending to small  
6 businesses for job creation, responsible home lending, and  
7 community-based economic development. While we applaud your  
8 intentions to improve CRA, regulatory action alone is not  
9 sufficient. So we will also be weighing in to Congress about  
10 some broader CRA changes that we think are necessary.

11 As you know CRA promotes care and sustainable  
12 lending. The law requires safe and sound lending and would  
13 have been helpful in preventing or curing to the foreclosure

14 crisis had it covered a broader range of institutions.  
15 Research conducted by the Federal Reserve economists document  
16 that home loans made by banks in their CRA assessment areas  
17 are about half as likely to end up in foreclosure as loans  
18 issued by independent mortgage companies. In addition, CRA  
19 small business and community development lending exceeded one  
20 trillion dollars from America's neighborhoods from 1996 to  
21 2008.

22           Although CRA has been instrumental in boosting  
23 lending and investing, the neglect of certain parts of  
24 regulation has meant the CRA has not realized its full  
25 potential. Although CRA has been updated, the level of CRA

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1 lending and investing would have been sustainably higher than  
2 it has been. In particular, we believe that a regulatory  
3 rulemaking should address the following areas, and I'm going  
4 to address a few starting with community development.

5           Low income families who fall under CRA have been  
6 successful homeowners once they have received financial  
7 education and home buyer education. One of the southbound  
8 association CDC's members, for example, has provided over 350  
9 low income families and have found them assistance and home  
10 buyer education, all have purchased homes and  
11 mortgages meeting CRA guidelines and only one is in danger of  
12 foreclosure.

13           There is a case to be made here for applying this  
14 strategy across all mortgages and mortgage lending with  
15 community economic experts providing the services. Banks who  
16 invest in home buyer education programs and down payment  
17 assistance programs should receive favorable CRA  
18 consideration.

19                   Additionally, we want to consider issues related to  
20 loans to nonprofits. The lack of lending presence in local  
21 communities have left a void of predatory lenders to fill.  
22 And many banks are making fewer community and nonprofit loans  
23 and investments than in previous years. Yet the price tags of  
24 loans are higher than previous years. Recently a lender in  
25 our region reduced its number of community loans to

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1 nonprofits for affordable housing by 50 percent. Another  
2 bank committed 38 percent fewer loans to community  
3 development organizations than in prior years. This drop in  
4 non-profit lending is significant to low income populations  
5 and CDCs because nonprofit developers commit to long term  
6 community economic development. More long term capital is  
7 needed by nonprofit revitalization in communities. Although  
8 the intent of the CRA was to provide incentives to create a  
9 level playing field for all prospective lenders; yet, the  
10 lack of specific reporting requirements does not meet fully  
11 this objective.

12                   Another area I would like to share with you before  
13 my time expires is lending in minority communities. Given  
14 the evidence of lending disparities by race, we believe that  
15 CRA exams must explicitly examine lending in services to the  
16 minority borrowers in the community. A large body of  
17 research shows that minorities receive larger percentages of  
18 subprime loans than whites even after controlling for  
19 borrower creditworthiness and other characteristics. Overall  
20 it is probable that considering lending and branching by race  
21 of borrowers and neighborhoods on CRA exams would lessen the  
22 racial disparities by encouraging banks to increase their  
23 lending and services in communities of color.

24                   Before the 1995 changes to the CRA regulation, CRA

25 exams considered lending to minorities as an assessment

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1 factor suggesting the agencies thought they had the authority  
2 to consider lending to minorities on CRA exams.

3 In conclusion we would just like to point to the  
4 fact that the severity of the foreclosure crisis would have  
5 been substantially lessened if the entire financial industry  
6 had an obligation to serve all communities consistent with  
7 safety and soundness. We believe that the regulatory  
8 agencies can contribute significantly to insure sustainable  
9 economic recovery by updating the CRA regulations.

10 In addition, we believe that Congress must do its  
11 part in applying CRA to non-bank institutions, including  
12 mainstream credit unions, independent mortgage companies and  
13 insurance firms and investment banks.

14 Thank you very much.

15 DIRECTOR BOWMAN: Thank you, Mr. Mazyck.

16 Mr. Bledsoe?

17 MR. BLEDSOE: Thank you very much. My name is Tom  
18 Bledsoe. I'm wearing two hats today. One is the President  
19 and CEO of the Housing Partnership Network and the other is  
20 the Chairman of the Gulf Coast Housing Partnership.

21 I'm speaking today on behalf of some of the  
22 nation's leading CDFIs, housing developers, and counseling  
23 agencies. What distinguishes these organizations, or  
24 members, is their ability to operate at scale, and NADP and  
25 Enterprise Corporation of Delta that was on the prior panel

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1 are stellar examples of this style of organization. These  
2 groups are successful because they use the housing

3 partnership model. They build partnerships with public,  
4 private, civic sectors in their communities. They are  
5 mission focused, and they really emphasize a sound business  
6 model.

7 I'm also speaking as the Chairman of the Board of  
8 the Gulf Coast Housing Partnership, an organization that the  
9 network help spawn. We put two million dollars into the  
10 creation of the organization to address the after effects of  
11 the hurricane that devastated that region in the sense that  
12 there was a need for a partnership-based large scale,  
13 nonprofit developer. We worked very closely with business  
14 and civic leaders and our members around the country to set  
15 the organization up. We invested two million dollars of  
16 capital that allowed us to leverage 28 million dollars of  
17 financing from local banks, national banks, foundations and  
18 GSCs.

19 In four years, GCHP has now developed 1600 units of  
20 affordable housing worth -- with financing of over 225  
21 million dollars.

22 I'd like to focus my remarks on how CRA could work  
23 to better serve the underserved communities and regions,  
24 including the Gulf Coast. GCHP is based in New Orleans but  
25 operates in Mississippi and Louisiana.

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1 We can no longer ignore the fact that I think the  
2 housing policy in the United States has over-emphasized home  
3 ownership, notwithstanding the real need for affordable  
4 mortgage products that John mentioned. There's been an  
5 imbalance and we need to look harder at rental housing  
6 development and meeting the needs of home owners and renters.

7 We also, I think, understand we need to look at

8 housing on a regional metropolitan basis, that development  
9 mechanisms to insure that affordable work force housing are  
10 located near jobs linked to transportation systems in order  
11 to insure economic growth. Equity on a regional basis to  
12 succeed -- for helping families and low income residents  
13 succeed is critical.

14 As you revisit CRA regulations, I'm going to  
15 suggest a number of changes that I think reflect these facts.

16 The first recommendation is we believe the rules should  
17 create a community development test to emphasize financial  
18 institutions lending investments and services in support of  
19 affordable rental housing, community facilities, and other  
20 essential community services. It's important that a test go  
21 beyond just measuring the number of loans or dollars  
22 invested, but also measure investments relevant to community  
23 and meeting critical needs.

24 Second, we think the new regulation should provide  
25 incentives to tackle national and regional community

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1 development priorities. The responsibility to address these  
2 national community priorities should fall particularly on the  
3 large financial institutions whose business interests extend  
4 well outside those places where they take deposits and to  
5 those institutions who do not have bricks and mortar  
6 branch-based deposit making systems.

7 In thinking about national geographic priorities,  
8 regulators could create a mechanism that looks at the  
9 coverage of regulated financial institution assessment areas  
10 where there are places with limited coverage, particularly  
11 rural areas. The CRA rules could provide incentives and  
12 rewards for those banks that are willing and able to lend and

13 invest and serve those places.

14 CRA should encourage all banks to serve that are  
15 national and regional priorities outside their assessment  
16 areas, but we think that financial institutions should step  
17 up with capital to help rebuild a community after large-scale  
18 disasters such as occurred in the Gulf, or to address the  
19 credit deserts that exist in rural areas. This is a positive  
20 step. I think recently the CRA regulations were allowed for  
21 investments in neighborhood stabilization outside of banks'  
22 assessment areas because that's a positive step that could be  
23 replicated in other approaches that you took.

24 Finally, we think that since the rules of CRA were  
25 instituted the nonprofit sector has grown considerably.

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1 There have merged a group of high performing nonprofits like  
2 ANDP who operated a scale across the entire country or region  
3 in which they are located. Given their capacity, these  
4 organizations can and do serve as strong counterparts to  
5 banks, doing the work in the communities that CRA was  
6 designed to encourage. With these strong number of  
7 institutions, most need to grow and to sustain their  
8 businesses to increase their impact as access to equity-like  
9 capital at the corporate level so they could use to leverage  
10 additional private capital. We would strongly urge that the  
11 final CRA regulations provide banks with full credit for  
12 investments in these nonprofit entities who, like Gulf Coast  
13 Housing Partnership, ANDP, Enterprise Corporation of the  
14 Delta are making major contribution towards meeting their  
15 community needs.

16 Thank you very much for letting me appear today. I  
17 look forward to your questions.

18 DIRECTOR BOWMAN: Thank you. Enjoyed your



19 comments.

20 MR. BURNISTON: Thanks. I had some questions that  
21 are similar to those that I asked other panelists, but I'll  
22 put a slight, different twist on them.

23 what I'm interested in sort of learning about are  
24 what specific changes you would make or suggest that we make  
25 to the CRA regulations that will actually result in lenders

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1 taking on more of the activities that you suggest -- and, Mr.  
2 Bledsoe, you've given the example in your written testimony  
3 about a CD test, for example, that would be a specific  
4 measurement that would service, I guess if it's set in a way,  
5 but I'm interested in all of your thoughts about what things  
6 could actually be adjusted in this regulation that would  
7 actually result in people doing some of the things that  
8 you're advocating or suggesting to go to your communities.

9 MR. O'CALLAGHAN: I'll start. I think one thing  
10 you've heard echoed here is that minority communities are not  
11 being well served, and so we need a new CRA regulation,  
12 something that specifically addresses that. Foreclosure is  
13 obviously a crisis in this community and in many places  
14 across the country. A specific guideline to get at  
15 investments through NSP programs, but at investments at NSP  
16 target areas, I would even say up to the 120 percent of very  
17 median incomes. It's about restoring neighborhoods -- are  
18 two very specific changes that could make an immediate  
19 difference.

20 MR. SKILLERN: I believe -- in addition to my  
21 comments earlier, the differences in the mega banks -- North  
22 Carolina, of course, is home to the largest bank in the  
23 country with Bank of America, as well as Mt. Gilead Savings

24 and Loan at 9.8 million. One shoe doesn't fit all. And I  
25 think that the mega banks do needs a different set of

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1 criteria that allows them to be evaluated on a more even  
2 geographical basis. So, as an example, Bank of America  
3 regularly claims to be the number one lender -- small  
4 business lender in the country. They are also below the 10th  
5 lender in Charlotte for small businesses. So they are kind  
6 of like an inch deep and a country wide and when you pile it  
7 all up, it looks real good, but when you are in Fayetteville,  
8 North Carolina, or other municipalities or rural areas,  
9 that's not the same type of service and leadership. And,  
10 again, I think it's the assessment of the scope of what we're  
11 looking at as well as -- I've seen the full scope evaluation,  
12 and I would hate to be a banker having to respond to you guys  
13 for all those questions. It's really in depth. But, at the  
14 same time, by being so in depth in one area you lose what is  
15 happening all out and beyond that. So I would really  
16 recommend a lighter scope with a broader area that would  
17 assess what the impact of services are across a broader  
18 geographical area. That's the primary recommendation for  
19 rural areas.

20 MR. BAILEY: I would agree. I'd also expand the  
21 CRA requirements beyond depository banks. I'd look to bring  
22 in a greater number of investment banks and broker/dealers.  
23 I'd tap into the entrepreneurial spirit that they have,  
24 particularly as it relates to developing and enhancing  
25 investments in housing development, particularly rental

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1 housing development and also creating funds or partnering

2 with state agent base, for example, investing in funds that  
3 would lower interest rates on mortgage bonds as a means of  
4 avoiding predatory loans and driving down interest rates to  
5 the point where homes are a lot more affordable.

6 I would also like to see it extended to include  
7 investments in fair housing. Currently, fair housing  
8 advocates are having to prosecute cases with their own funds  
9 because federal funds cannot be used for that purpose, and we  
10 all know the greatest expense associated with enforcing fair  
11 housing comes from litigation expense. So extending credit  
12 to CRA institutions to encourage that type of investment I  
13 think is appropriate.

14 I also think that investments that would bring  
15 about a greater enhanced nonprofit ability -- a nonprofit's  
16 ability to provide housing for at-risk populations should be  
17 an area where additional credit is given, particularly as it  
18 relates to homeless housing and particularly as it relates to  
19 elderly housing persons with fixed incomes.

20 MR. MAZYCK: In addition to what my colleagues have  
21 shared, I think if CRA could provide favorable ratings and  
22 points to banks for investments or greater points for  
23 investments, low income housing tax credits, community  
24 development tax credit programs, even for banks who are  
25 submitting and partnering with local nonprofits for AHP,

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1 affordable housing programs, through the Federal Home Loan  
2 Bank system, as well as -- and especially now with the  
3 economy in the condition it's in, those programs and efforts  
4 that create jobs. Those kinds of investment pools,  
5 entrepreneurial pools, programs related to individual  
6 development accounts that helps create entrepreneurs, helps  
7 to support first time home buyers. Those kinds of

8 investments are on the ground in the communities that make  
9 the kind of impact that I think really CRA was intended to  
10 help foster.

11 MR. BLEDSOE: In the previous panel we heard that  
12 service tests were dominated by the location of the offices.  
13 I think the lending test is dominated by HMDA data and single  
14 family mortgage lending. We heard some of the issues about  
15 what's being looked at there, not just numbers but actually  
16 what's coming out of that. What that means then, you're  
17 investment test, you can meet your investment test by, you  
18 know, buying securities through mortgage-backed securities.  
19 What ends up happening is that I think investments, really in  
20 community development, affordable rental development, transit  
21 oriented development, community facilities, they really just  
22 don't -- they really don't have much influence on a -- in any  
23 of these three scores. So that's why we would argue that you  
24 either change the investment test and make it a community  
25 development test and have it where it's more focused on

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1 community development priorities, or you can create it as an  
2 overlay, but really create a community development investment  
3 lending test that really focuses on major priorities at a  
4 community level that right now I think gets sort of lost in  
5 the sauce a little bit.

6 The second thing I just want to emphasize -- well,  
7 I'll just leave it there.

8 DIRECTOR BOWMAN: Ms. Castro?

9 MS. CASTRO: I'd like to ask a question -- I'd like  
10 to go back to the idea that the geographic identification of  
11 assessment areas -- identifying rural assessment areas. And,  
12 Mr. Skillern, you had recommended that rural areas be

13 reviewed as part of the intermediate and large bank CRA  
14 evaluations. Very often regulators might select one or two  
15 of those rural markets and not necessarily all. So my  
16 question to you -- and I would be interested in the rest of  
17 the panelists as well, if you have a recommendation in this  
18 area, is what factors should they take in which rural areas  
19 are looked at and how many of them, or is it all of them?  
20 You know, give your thoughts in relating to how we identify  
21 which rural areas should be looked at.

22 MR. SKILLERN: I think you are limited in the  
23 amount of resources you can expend on an evaluation and I  
24 think the banks are as well. So I think your method needs to  
25 be changed, and again, the in depth scope is appropriate, but

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1 it's almost overwrought without getting to the heart of it.  
2 So when I meet with -- I have my lender friends out here. I  
3 meet with them. I bring them their HMDA analysis for their  
4 different metropolitan areas and rural areas, and we scan it  
5 and we say, "We looked at you compared to your competitors in  
6 the market, and you're doing really well in these areas, and  
7 in these two places, you are really outside the norm. The  
8 application rate is low. The declination rate is high. Your  
9 total loans are low. Why is that?" And that's a nonprofit  
10 with a staff of three or four. It didn't take me that long  
11 to do -- to have a meaningful conversation about what has to  
12 improve.

13 Next follow-up question, "What are your  
14 partnerships with the nonprofits in those areas? What are  
15 you doing for community development?" Or, I might call out  
16 to all my different nonprofit colleagues and say, "How is the  
17 bank doing in your area?" And suddenly I have a pretty good  
18 sense between those banks that say, "Call corporate

19 headquarters for CRA," and those that tend to be genuine  
20 partners. Those that integrate CRA in their regular business  
21 plan as the way they do business versus those that segregated  
22 it off into a separate special program. And those banks that  
23 integrate it like the Pee Dee Bank versus the big -- some big  
24 banks, that's what we're trying to get at, is to shift that  
25 culture of how that local branch manager sees that service

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1 component.

2           So I didn't directly answer your question, but I do  
3 think that you need to look at the broader scope and that you  
4 can do that without adding unburdened costs.

5           MR. BAILEY: I think a reexamination of need based  
6 upon federal supported statistical information would be an  
7 appropriate starting point. I also think that when you're  
8 looking at levels of poverty and you're looking at levels of  
9 homelessness and you're looking at levels of just community  
10 devastation, whether it's economic or whether it's  
11 environmental, those are factors that should come into play.  
12 Now, I realize -- realizing though that the hard data, as a  
13 result of community need, obviously should be given great  
14 weight, but there's times when you need to be able to shift  
15 where that weight is given depending upon the type of issue  
16 or disaster that you're trying to address. For example, the  
17 absence of tax credit investors in the wake of Katrina, Rita,  
18 Gustav, and Ike in the southern states really left us high  
19 and dry in terms of completing a number of properties that,  
20 but for the credit crisis, would have come on and created a  
21 much more healthy environment, livable environment for the  
22 populations that we collectively serve -- us, as the housing  
23 provider, you as banking regulators. And so --

24 (Interruption of conference phone operator)

25 MR. BAILEY: That's my cue to move on.

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1 (Laughter)

2 MR. BAILEY: But those would be some examples of  
3 where I would suggest we'd rethink the criteria.

4 well, to the point of which rural communities or  
5 all rural communities, I'd err on the side of all rural  
6 communities, but I think that a lot would consider would  
7 be -- a lot would depend on the state or the area that the  
8 banks are operating in. And for a state like South Carolina  
9 that is largely rural and is not as large geographically,  
10 maybe, as North Carolina and other states, it's probably more  
11 conceivable to be able to consider all the rural communities  
12 or the majority of the rural communities in that assessment  
13 area and in that exam. So, we do see the need for our banks  
14 to be able to serve more in rural areas, and a lot of that is  
15 going to depend upon what the infrastructure is like in those  
16 communities to provide services, and if the bank is not  
17 located in certain areas, something that could be considered  
18 is, is through what other mechanisms are the banks working  
19 through in order to serve rural areas, whether it's through  
20 nonprofits, whether it through churches, whether it is  
21 through other institutions, but, you know, we'd err on the  
22 side of considering all rural communities.

23 MR. BLEDSOE: Strategically, as been mentioned  
24 before, thinking of the large banks in a different way -- I  
25 think the question was asked earlier about whether there

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1 should be different obligations for the larger banks. One

2 idea we'd like to be considered is to identify a set of  
3 national regional priorities that the regulators working in  
4 concert with policymakers in the federal government, HUD,  
5 Treasury, would identify priority areas that are unmet, and  
6 rural certainly would be at the top of one of those lists.  
7 But investing in Detroit could be another one of those areas  
8 that is a critical area. And that for a national bank, maybe  
9 one of the top 50 banks, you could figure out what the  
10 threshold would be, for them to be like on an outstanding  
11 rating, they would need to make an affirmative investment in  
12 those priority areas that are outside of their assessment  
13 areas. And I think that could induce some of these larger  
14 institutions that really need to be, I think, more partners  
15 and aligned with federal housing policy in addressing some of  
16 these big issues.

17               So I think there needs to be a way to get some of  
18 the top banks who are providing so much credit -- have the  
19 potential to provide so much credit to be able to allocate  
20 some of those funds towards the national priorities and not  
21 simply rely on sort of their -- the local banks in the rural  
22 areas, that they're supposed to somehow have enough capital  
23 to address the rural housing need. So there needs to be a  
24 way, I think, to incentivize the larger institutions, and so  
25 from our point of view it would be to create a higher

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1 standard and a standard of national priorities, rural being  
2 one of them, and to have an expectation that the larger banks  
3 would have an obligation to invest in some of those  
4 priorities.

5               DIRECTOR BOWMAN: Following up on that, at our last  
6 hearing in Arlington, Virginia, -- or our first hearing, I  
7 should say, a number of panelists sort of touched on the same



8 area you've talked about, which are assessment areas. Some  
9 of you have focused on rural areas, but let me expand the  
10 question a little bit farther than that, which, -- and Mr.  
11 Skillern, actually, your comment regarding Charlotte and  
12 you've got one of the largest institutions in the United  
13 States, if not the largest, with the 9.8 -- and I forget the  
14 name of the particular institution -- the competition, if you  
15 will, that that sort of situation sets up where you have an  
16 assessment area definition, different entities competing, if  
17 I can, for CRA credit in that same community. We have  
18 Katrina, we have the Gulf Coast, we have environmental and  
19 economic issues. I would like you to discuss briefly what  
20 the implications might be if we were to look at, perhaps,  
21 amend the rigor of the assessment area that an institution of  
22 any size would be subjected to provided that -- Detroit is a  
23 great example -- an institution regardless of its size doing  
24 business in Cincinnati, given some of the constraints that  
25 that particular assessment area might present to it, the

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1 acceptability of that institution getting credit for --  
2 generally for providing services or loans or what-have-you in  
3 Detroit or the Gulf Coast.

4 Anyone can start.

5 MR. O'CALLAGHAN: I think one part of the premise  
6 is that there would necessarily be a line of competition. I  
7 think the unmet needs currently in this environment are so  
8 great that the stumbling on top of one another is probably  
9 not going to be an issue.

10 Secondly, I think there is great benefit from  
11 innovation. We are in a completely different marketplace  
12 than we were three years ago in many parts of the country and

13 everything has changed. Products have to change, the way we  
14 address that, and I don't see a lot of innovation. So if we  
15 had more players in, the prospects of getting one or two  
16 lenders that can provide innovation in a market where others  
17 that may be more normally based there may follow, I think the  
18 benefit would outweigh some of the risks that you  
19 illustrated.

20 DIRECTOR BOWMAN: So I guess the question I would  
21 have, if I could just follow up, the -- should I say the  
22 burden of innovation, would it be greater on the 9.8 million  
23 dollar shop, or on the 2 trillion dollar shop in terms of  
24 serving the same assessment area.

25 MR. O'CALLAGHAN: Well, if currently in that --

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1 Both of them are in the assessment area in North Carolina, so  
2 it's about bringing somebody else in that may spark an  
3 innovation that the two current players maybe aren't getting,  
4 and I think that that's what that would be addressing. I  
5 would want both of the folks that are currently in it. I  
6 wouldn't want to lessen their responsibility. I would want  
7 to increase some responsibilities of national players in  
8 national markets.

9 DIRECTOR BOWMAN: Mr. Skillern?

10 MR. SKILLERN: I guess I don't see in the current  
11 environment a lot of competition for CRA. I see a withdrawal  
12 of resources. I have had conversations about the concern  
13 about being able to essentially meet your CRA requirements,  
14 say, in Detroit, rather than Atlanta or North Carolina,  
15 leaving one community benefitting in one and one without.  
16 And particularly for smaller geographical assessment areas,  
17 if I don't have something in rural South Carolina, then I'm  
18 going to go invest in Charlotte or Detroit because there is

19 something that's working there. And you'll often find that  
20 the types of investments banks want to make are scalable. So  
21 it's easier for Bank of America to make 100 million dollar  
22 investment and to list or to a large non-profit than it is to  
23 make a 50 thousand dollar investment in a small area. So you  
24 end up with some disincentives around where people are  
25 allowed to export. There needs to be this idea of evenness,

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1 geographical equity is really important. So any incentive  
2 that you allow for putting my investment somewhere else from  
3 here runs that danger.

4 DIRECTOR BOWMAN: I appreciate that.

5 MR. SKILLERN: So that's my concern. I've only  
6 seen competition where -- among banks for CRA credit really  
7 kind of emerge on surfaces. When times were good, people  
8 were competing to do community development deals and  
9 occasionally they would lower prices on their CRA mortgages.  
10 My concern more around the assessment areas are when  
11 assessment areas are used as a tool to avoid oversight, or to  
12 avoid their obligation. So much of the CRA was framed as an  
13 affirmative service. If I take deposits from this area, then  
14 I have to return service, and that principle needs to be  
15 honored and maintained, but what we found were was when --  
16 for example, Morgan Stanley is the sixth largest bank in the  
17 country. It only has three assessment areas in three  
18 counties in Utah, New Jersey, and New York, but it does  
19 branch services in 50 states with 500 branches. Suddenly the  
20 assessment area becomes a really important component in the  
21 round honoring that affirmative piece. Or, another example,  
22 going back to the Metabank component, their debit card  
23 services are national, but none of that is looked at within

24 their current CRA evaluation as far as what their impact is  
25 on that assessment area. I'm much less concerned about what

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1 Metabank does good, given their size; they're a very small  
2 bank nationally. They can't. They don't have the resources,  
3 but they have the potential to do enormous harm, and  
4 therefore, that's when CRA needs to be looking at the yin and  
5 the yang of it; what's affirmatively done well and what's  
6 negatively done, and let's curb -- let's promote and  
7 incentivize the good and disincentivize the bad.

8 DIRECTOR BOWMAN: Mr. Bailey?

9 MR. BAILEY: I take a little bit more radical view  
10 of it, and I look at what's located in rural and hard to  
11 finance areas, and how can I draw greater participation under  
12 CRA. And if you think about it, your mega food producers,  
13 your oil refineries, your chemical plants, your forestry  
14 industries are all resource exploiters, just as the CRA came  
15 out of exploitation of minorities, or however you want to  
16 figure it, as a means of giving back, perhaps by bringing  
17 back those resource exploiters in to CRA and requiring that  
18 they participate as a payback for their exploitation of rural  
19 communities, to invest in the communities in which they're  
20 located to elevate the business level and understanding,  
21 educational level, housing level, social service delivery  
22 systems, et cetera, et cetera, of the communities in which  
23 they are located and exploit. You're going to be able to  
24 bring a lot more money to bear on the type of rural issues  
25 that we're facing that using your existing cadre of deposit

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1 or banks would not necessarily be able to accomplish.

2 MR. MAZYCK: I don't think I have anything to add  
3 to what my colleagues have said.

4 DIRECTOR BOWMAN: Mr. Bledsoe.

5 MR. BLEDSOE: I think if you identified the areas  
6 with high unmet needs where there really is a shortage of  
7 investment, I think a system that encouraged some of the  
8 larger banks to invest in those areas ought to be able to get  
9 some type of additional scoring or credit or outstanding  
10 ratings would be very positive. And we've had banks that  
11 have the financial instigation -- and you mentioned one of  
12 them, Morgan Stanley, or Merrill Lynch, which have very small  
13 investment areas, and they -- you know, those particular  
14 markets get heavily focused on, and if you have anything to  
15 do there, they're very interested and yet they have the  
16 sophistication to be able to invest in other areas which  
17 really have needs, yet they don't feel -- you can't really  
18 convince them to go there because they don't get CRA credit  
19 for it.

20 So I think there should be a different standard for  
21 these larger institutions and there should be a system that  
22 encourages them to be able to meet their CRA obligations in  
23 areas that have very strong unmet needs, and that puts some  
24 of the obligation on the regulators to identify what those  
25 areas are. You don't certainly want them to invest in areas

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1 that are easy for them to invest in and not serve areas that  
2 they are based in. So that's -- you know, a challenge would  
3 be how do you prioritize those areas. But I think if you  
4 could come up with a way to do it, a system that allowed them  
5 to put some of their innovation and talent into investing in  
6 those unserved markets would be very positive, and I think  
7 there should be a difference of a standard expectation of

8 what they can do there than what a small community bank would  
9 have an obligation to do running innovation in their  
10 assessment areas.

11 DIRECTOR BOWMAN: Thank you very much.

12 Vice Chairman Gruenberg.

13 VICE CHAIRMAN GRUENBERG: Thank you, John.

14 This has been a very helpful panel, if I may say.  
15 If I may ask a couple of quick questions.

16 Mr. Skillern, I repeat your point about assessment  
17 area evaluation in rural areas, which I think is very  
18 helpful. You also mentioned in your testimony there are some  
19 things there are distinctive features of lending in rural  
20 areas in regards to emphasis on agriculture, manufactured  
21 houses, small business. In addition to the assessment area  
22 issue, in your view is there other things we should be  
23 looking at in regards to CRA as in fixed rural areas?

24 MR. SKILLERN: Mr. Gruenberg, I submitted a paper  
25 written by Tonya Wolf, a former researcher of ours, on "The

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1 Landscape of Rural Lending in North Carolina," in which we  
2 did a case study of Bladen County and looked at the broader  
3 North Carolina markets to show the trends. And while the  
4 paper has become dated, the trends have actually have only  
5 become more pronounced. So I would refer that to the  
6 regulators as a scope of unique contact for rural areas.

7 As far as the regulatory incentives, other than  
8 perhaps evening out what's evaluated -- it's not really a  
9 question of what the assessment area is. The legislation  
10 already says wherever you do business. It's whether it's  
11 being looked at and examined -- would be to look at some  
12 incentives. I like the idea of providing incentives that are

13 not a reduction of oversight, but perhaps could be on  
14 borrowing at the discount window or other type of financial  
15 incentives that help to recognize that CRA -- in some CRA  
16 investments are not as profitable as others.

17 We, as an advocacy group, argue that CRA needs to  
18 be sustainable, it needs to have -- be profitable for the  
19 bank and for the borrower, but there's also -- we also make  
20 the argument that it may not have the same high hurdle rate  
21 as other parts of your business. So to the extent that your  
22 Pee Dee Bank made a 250,000 dollar investment and didn't  
23 expect any return off of it, that cost them. They could  
24 potentially be recognized for that incentive by some type of  
25 financial reward. That would be my other suggestion.

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1 VICE CHAIRMAN GRUENBERG: Thank you.

2 Let me ask also, you made an observation in your  
3 testimony in regard to how CRA comments are utilized, and you  
4 suggested in effect it encourages an adversarial  
5 relationship. I was wondering if you could expand on that.

6 MR. SKILLERN: Certainly. The evaluation process  
7 currently is giving -- because it's not gradations, right,  
8 it's typically 99 percent, or satisfactory, or outstanding,  
9 and there's no enforcement, no penalties and no rewards. It  
10 becomes purely that, just an observation.

11 The comment period is when the law says there are  
12 liable to be penalties, but the only penalty that's really  
13 set up is whether the merger is approved or denied. Most  
14 community groups are not interested in whether -- our intent  
15 is not to deny the merger. Our intent is to improve lending  
16 to the community. If the banks are going to benefit from  
17 their economic merger, then the community should benefit as  
18 well. Can you provide assurances that things will get better

19 based on the evaluation of the baseline.

20 So, because the comments -- when I file comments,  
21 no matter how deep or good, you typically are not -- we don't  
22 get a denial, in fact we also don't get like an approval with  
23 orders, i.e., here are the areas we think the bank could  
24 improve in. It's just simply an approval. Tell me the  
25 benefit of that challenge. So while I file my regulatory

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1 challenge, I also then do a shareholder action. I dress up  
2 in sharp noses and protest outside of the bank. I meet with  
3 the bank leadership. I do media action. I do every tool I  
4 can to exert reputational damage, and public pressure is a  
5 tool for changing the bank's policies and practices. That's  
6 not in CRA. The idea is broader corporate responsibility.  
7 So I would be glad to give up the challenge component of it  
8 for a process that says to the bank, if you are emerging and  
9 expanding this business, tell us how the community will  
10 benefit, and then let community groups have substantive  
11 comment on that. That, for me, would be a way of actually  
12 moving forward using the evaluation of the baseline for how  
13 we are going to improve.

14 VICE CHAIRMAN GRUENBERG: John, do I have another  
15 minute or --

16 DIRECTOR BOWMAN: You have one more minute.

17 VICE CHAIRMAN GRUENBERG: Okay. I would like to  
18 ask Mr. Bledsoe briefly, in your testimony you mentioned that  
19 you would like to create a community development test  
20 specifically raising the issue of quality, going beyond  
21 simply numbers or volume of loans, and transition the quality  
22 to be invested into community needs. Do you have a method  
23 or initiative to bring in regard to the community development



24 test? Do you have thoughts as to how to make those kinds of  
25 judgments, effective qualitative judgments to the impact the

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1 investment has beyond the simple numbers?

2 MR. BLEDSOE: well, I think we'd like to give you  
3 more thoughts in written testimony than we have provided to  
4 you so far with oral -- I'm sorry. we'll provide you more  
5 thoughts in the written testimony later on in the month, but  
6 I think the core idea we had was, if there could be a  
7 mechanism to identify what the priority need is, and then the  
8 bank can be assessed about how well its investments or loans  
9 are helping address that. So it's not just how much loan  
10 volume went out, but how its financial products help address  
11 a need that was identified as a priority. So it would -- It  
12 would create a standard up against which the bank's  
13 investment and loans are being made, that standard being one  
14 that emerges through some type of more strategic analysis of  
15 what the needs are in a community, or particular markets that  
16 are unserved or certain products -- housing preservation is  
17 an example, which is a very complex affordable housing  
18 development preservation. If there was a set of goals that  
19 can be more defined, being able to measure the bank's  
20 products towards achieving those goals. I know that's still  
21 quite general, but we'll try to provide you something a  
22 little more substantive.

23 VICE CHAIRMAN GRUENBERG: Thank you very much.

24 DIRECTOR BOWMAN: Mr. Burniston?

25 MR. BURNISTON: I wanted to touch on something we

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1 haven't really gotten into much today. Maybe we could start

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2 with you, Mr. Skillern, with this question. I'm wondering  
3 whether or not the current ratings used on the current CRA  
4 rating system -- whether the current rating system is  
5 adequate to sort of measure the full range of different kinds  
6 of performance that you see out there and what changes would  
7 you make to that rating system.

8 MR. SKILLERN: It needs greater degradations, finer  
9 evaluations. So one way that we do that is we take the HMDA  
10 data, we measure application rate, denial rate, loans made by  
11 race and income and then we compare that -- the indicators to  
12 all the other lenders. We get a rank, average the score  
13 out. Help the crank rank the banks. If you're in the top  
14 quintile, you got an A, if you're in the second quintile, you  
15 got a B, and on down, and suddenly you get some refinements  
16 about how well did you do into the market and to your  
17 competitors. I also believe that the service agreement -- as  
18 discussed earlier, the service test is too vague and too --  
19 emphasize -- CRA reports will say, "We have this product that  
20 is affordable and can be made available to LMI households,"  
21 but there's no evidence that they are actually used. So some  
22 type of better measurement of that.

23 I also think there is probably too much emphasis on  
24 the mortgage lending test. I think it's primarily because  
25 back in the day that was the primary concern was the

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1 redlining of mortgage loans and that needs to be shifted,  
2 weighted less. I would also like to see that if you get a C,  
3 you get a C, and that there's ways that you can improve that,  
4 but there's a sense that we don't want regulators necessarily  
5 telling banks how to run their business, but there are  
6 incentives and disincentives about improving it. That seems  
7 a reasonable intermediary step.

8 I think regardless of how you organize the  
9 evaluation tools, it also has to come down to the integrity  
10 of the lenders. If Frady (ph) Bank of Pennsylvania received  
11 an outstanding rating despite making no community development  
12 loans, no loans in LMI census tracts and having no branches  
13 in LMI census tracts, no matter how you frame it, if it's not  
14 done with integrity and you give an outstanding to that bank,  
15 what does it matter?

16 So I think one of the really key messages here is  
17 that regardless of the policy, the role of the regulators is  
18 a fair arbitrator that both the community and lenders trust  
19 to be that fair arbitrator is really critical in the  
20 enforcement of whatever rules we come up with. So I hope as  
21 we devise new patterns, new tools for evaluation that are  
22 better, they will also see that outcome as well.

23 MR. BAILEY: I'd agree. I think not just should we  
24 rate banks based on their small business loans or their  
25 consumer -- individual consumer loans, but the qualitative

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1 aspect on the outcome -- qualitative outcome of how those  
2 loans manifest. For example, if you're talking about  
3 community lending, then in addition to a development of  
4 affordable housing complex, or the deconcentration of a  
5 center of poverty as a result of a re-makeover of public  
6 housing, did the community center serve the intended  
7 audience, how did it serve that intended audience, and how  
8 did that community center improve the quality of life of the  
9 residents that used that center; were health awareness  
10 programs run out of that center and what was the enrollment  
11 rate by seniors; how did that center and how did that class  
12 as related to health awareness reduce the overall elderly

13 population dependence on blood pressure medicine or diabetic  
14 medicine, and how has that generated a savings of income for  
15 those individuals like the elderly who are on fixed income  
16 with medical conditions? Are they now able instead of having  
17 to decide between buying their prescription drugs, are  
18 they not better able to afford their rent. So that's how I  
19 would, in addition to the numbers, I would evaluate the  
20 qualitative outcome.

21 MR. MAZYCK: I might add as well, we're up to 98 to  
22 99 percent of banks passing CRA tests over the past number of  
23 years. Further gradation of the rating system is necessary  
24 even to consider something along the lines of low  
25 satisfactory, high satisfactory, however we want to

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1 differentiate. Also giving some consideration of banks  
2 who -- a greater weight for those who invest in more  
3 difficult endeavors such as small business loans, nonprofit  
4 deals, you know, more complex deals that are usually needed  
5 in rural areas where layered financing is involved and so  
6 forth and where the bank investment comes in that deal. We  
7 would like to see banks that make that kind of investment  
8 receive high ratings, but definitely further gradation in the  
9 rating system is necessary.

10 MR. O'CALLAGHAN: Let me just echo the gradation.  
11 I think we all agree. I wanted to disagree with Peter on one  
12 point, it may have been three years ago that the emphasis on  
13 mortgage lending may have been overblown. Right now there  
14 are not mortgage loans being made in Atlanta's neighborhoods.  
15 They are all being bought by investors and we need to return  
16 to mortgage lending in these neighborhoods, and now is not  
17 the time to ease up on that requirement.

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MR. BAILEY: Oh, amen.

DIRECTOR BOWMAN: Beth? Five minutes left.

MS. CASTRO: I'm okay. I'd like to talk just a couple a minutes, if we could, about an issue that was brought up by -- I think by a couple of you regarding including race as an indicator of performance during CRA evaluation.

I think, Mr. Skillern, you had suggested that

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1 minority inclusion in advisory boards, staff at financial  
2 institutions and directors -- boards of directors is lacking,  
3 and so I guess my question to you would be are you  
4 recommending that the loan and service tests have some type  
5 of criteria that assesses lending in minority areas or is  
6 that there's more inclusion of minorities in bank capacities,  
7 and if so, how much weight would you suggest that that have  
8 or how would you determine what would be acceptable?

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MR. SKILLERN: Sure. For the audience, in my written testimony I cite a study that we did, "The Representation of African-Americans and Women on Bank Advisory Boards," and in North Carolina this is a big deal where each local bank or regional area will have advisory boards to refer business to them, and it's just overwhelming white and male, even in the predominantly majority minority towns in Eastern North Carolina. And the feedback that we did is that banking is a relationship business, so how can we have that conclusiveness? When we go in and look at who -- the loan officers, we had one large bank share with us in an affirmative effort to say that they had no African-American commercial loan officers for North and South Carolina. How do you make those loans happen? How do you have that inclusion?

24 I think that when we talk about the evaluation of  
25 CRA for minorities, we were really talking about the lending

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1 test, that when the Feds decided to not do that and only look  
2 at LMI, they removed a critical element for evaluating  
3 inclusiveness of the community. Somehow the community was  
4 defined purely along a class and economic line rather than  
5 the reality that race plays. So our measure would be not  
6 necessarily that you are weighting it any different, you're  
7 just looking for exclusion. Is there a representation of  
8 lending to that community or is it below a certain threshold.

9 The Department of Justice has settled seven redline  
10 cases where they said, here's the bench mark. How much is  
11 enough? Feed the poor. Shelter the homeless. Well, how  
12 much of that do you have to do before you're in trouble?  
13 well, in lending the DOJ has said, about right here. That's  
14 a baseline for them to be able to say you've gone from not  
15 doing enough to violating the law and discriminating, we'll  
16 settle the case.

17 So when y'all took that out of your evaluation, you  
18 left the floor out -- you just bottomed out as far as how  
19 banks impact that part of the community, and that's what  
20 needs to be reinstalled. As far as inclusion in banks'  
21 culture and employment, advisory boards, that's something  
22 that would be very difficult to regulate and gets into a  
23 whole different area of affirmative action and legal criteria  
24 that I don't know that banking regulators need to do. You  
25 could consider though there are some banks who have invested

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1 in the development of minority job training programs who

2 historically buy colleges and universities in an affirmative  
3 way. The investment, that grant program, could be considered  
4 part of their outreach or their CRA framework. You might  
5 look at that.

6 But I think while it is a challenge, it's not a  
7 regulatory solution around hiring and advisory boards. It is  
8 a regulatory solution to look at who you are lending to and  
9 partnering with.

10 DIRECTOR BOWMAN: Thank you. And I'd like to thank  
11 our panelists for your insightful remarks.

12 we'll take a 15 minute break, returning at 2:45.  
13 (Whereupon, a short break was taken.)

14 VICE PRESIDENT GREENE: Okay. All right. We're  
15 going to go ahead and get started. So while people are  
16 piling into the room I did want to just point out a couple of  
17 things to your attention from the Federal Reserve Bank of  
18 Atlanta. I know many of you saw Partners Magazine, which is  
19 a publication that we send out across the district that  
20 addresses various community and economic development related  
21 issues, so we encourage you to peruse that magazine, and if  
22 you have ideas for the magazine or if you'd like to have  
23 additional information, let us know.

24 We also have a podcast series that addresses a  
25 number of housing and economic development issues. So, in

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1 fact, the current feature is focusing on workforce and jobs,  
2 and I have some postcards up here for your information and  
3 I'll have them at the back.

4 So, with that, it looks like we have -- whoever is  
5 going to be here is here, so we can move forward. Thank you.

6 DIRECTOR BOWMAN: All right. First of all, let me

7 state that only registered speakers will deliver individual  
8 presentations. I will call each speaker following the order  
9 on the agenda, which you should all have. If someone is not  
10 available when your name is called -- or their name is  
11 called, we will move on to the next person on the list. And  
12 presenters should state their name, organization affiliation,  
13 if any, and each individual presenter will have up to three  
14 minutes to present. The timekeeper, who has moved, will  
15 indicate when the presenter has one minute left and when time  
16 is up. And, again, I would please remind you that these  
17 proceedings are being recorded. If you would, speak into the  
18 microphone.

19 So we will start with Georgia State Senator Vincent  
20 Fort.

21 MS. FOLEY: He hasn't arrived yet.

22 DIRECTOR BOWMAN: Okay. Private citizen, Veatrice  
23 Farrell?

24 (No response.)

25 DIRECTOR BOWMAN: Housing Education and Economic

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1 Development, Charles Harris, Executive Director. There we  
2 go.

3 MR. HARRIS: Good afternoon. I am Charles Harris,  
4 President and CEO of Housing Education and Economic  
5 Development in Jackson, Mississippi, and I'm also here to  
6 represent the National Community Reinvestment Coalition known  
7 as the CRA (sic). I am honored to participate today in this  
8 public hearing on the Community Reinvestment Act regulation.

9 CRA requires safe and sound lending, and would have  
10 been a preventative cure to the foreclosure crisis had it  
11 covered a broader range of institutions. As beneficial as  
12 the CRA has been, the following reform, among others, must be



13 implemented in order for CRA to realize its full potential.

14           Number one, assessment areas or the geographical  
15 areas on CRA exams must cover the great majority of banks'  
16 loans. Currently, 25 percent of all home purchase loans are  
17 made by banks operating in their assessment areas. Research  
18 has shown that bank loans outside assessment areas are more  
19 likely to be high-cost loans than loans in assessment areas  
20 and scrutinized by the CRA exam.

21           Currently, banks have the -- Number two, currently,  
22 banks have the option of including their non-depository  
23 affiliates on CRA exams; they will opt against inclusion if  
24 the affiliates engage in risky lending or discriminatory  
25 lending. Banks must be required to include their affiliates

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1 on the CRA exam.

2           Number three, a large body of research concluded  
3 that minorities received more high-cost risky lending than  
4 was justified based on their creditworthiness. If CRA  
5 considers lending and service to minorities, racial  
6 disparities in lending will be reduced.

7           Number four, by holding lenders accountable,  
8 publicly available data, particularly the Home Mortgage  
9 Disclosure Act, has been vital for increasing responsible  
10 lending to traditionally underserved borrowers. Applying a  
11 similar rationale, the limited CRA small business data must  
12 be enhanced to include the race and gender of the of the  
13 small business borrower. In addition, the agencies must  
14 require census tract level disclosure of community  
15 development loans and investments. Likewise, data on the  
16 types of consumer lending by borrower demographics and census  
17 tracts can promote access to affordable consumer loans and

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alternatives to abusive payday loans.

19 To improve access to credit is to improve the CRA.  
20 Thank you.

21 DIRECTOR BOWMAN: Thank you, Mr. Harris.  
22 Red Fields to Green Fields Atlanta, Chief Executive  
23 Officer, Laura Hughes. Welcome.

24 MS. HUGHES: My name is Laura Hughes and I'm the  
25 Chief Executive Officer of Red Fields to Green Fields.

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1 We, meaning Red Fields to Green Fields America,  
2 support expanding the Community Reinvestment Act regulations  
3 to encourage banking institutions to invest in neighborhood  
4 stabilization programs. However, these projects should not  
5 be restricted to a narrow interpretation of redevelopment.

6 The nation has too much development. There are at  
7 least five million excess homes, retail vacant space totals  
8 over ten percent and is rising rapidly due to the growth of  
9 internet shopping, and many industrial facilities are surplus  
10 due to global changes in production and just-in-time  
11 delivery. The problem is nationwide, it is not confined to  
12 older shrinking cities such as Detroit, and is serious even  
13 in growth cities such as Atlanta.

14 At 3.18 percent, Atlanta's home foreclosure rate is  
15 slightly above the national rate, and 10.51 percent of  
16 mortgages here are delinquent. Atlanta's retail vacancy rate  
17 is 12 percent and climbing. It should get -- it could get  
18 much worse as shoppers migrate to the internet. The national  
19 office vacancy rate is as high as 14.8 percent, but Atlanta's  
20 is even higher at 21.2 percent. There are 12.3 million  
21 square feet vacant in Buckhead, Midtown, and downtown  
22 Atlanta, combined, or 12 empty Bank of America towers.

23 These residential and commercial vacancies are

24 costly to communities, banks, and nearby land owners. The  
25 property values and other interests of the surrounding

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1 community are often best served if an abandoned or foreclosed  
2 property is temporarily removed from the market, rather than  
3 redeveloped where it may produce more vacancies. We should  
4 encourage the stabilization of neighborhoods by demolishing  
5 excess properties and converting the land into a combination  
6 of parks and land banked for future development when economic  
7 conditions improve.

8 Banks should be given CRA credit for investment in  
9 this type of redevelopment as well.

10 We note that the projections of many developments  
11 frequently turn out to be too optimistic, and the developed  
12 property ultimately produces negative cash returns, hurting  
13 banks. In addition, investment in parkland and land banks is  
14 generally disadvantaged -- despite its positive effects on  
15 nearby properties -- primarily because it does not project  
16 positive near term cash flow.

17 Finally, the federal government should incent bank  
18 loans for parks, recreation, and land bank projects by  
19 setting up a program to purchase such loans from banks when  
20 they are originated at a zero percent interest rate, and on a  
21 principal-only amortization schedule. These measures would  
22 allow longer-term investment by local governments,  
23 nonprofits, and community shareholders, as well as  
24 public-private partnerships with corporations and developers.  
25 The combination of these incentives would encourage green and

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1 sustainable land use that is in the best interest of many  
2 communities that have been affected by past real estate  
3 excesses.

4 DIRECTOR BOWMAN: Thank you very much.

5 MS. HUGHES: Thank you.

6 DIRECTOR BOWMAN: Georgia State Senator Vincent  
7 Fort, I understand, has arrived. He's coming in? Or not.

8 Okay. All right. Expert Financial Systems, LLC,  
9 Ed Kenny, Chief Executive Officer. Welcome.

10 MR. KENNY: My name is Ed Kenny. I am the CEO of  
11 Expert Financial Systems here in Atlanta. I'm here today to  
12 talk about prepaid debit card issuance and how that can fit  
13 in with the CRA.

14 The underserved, underbanked communities, while  
15 traditionally thought of as rural and lower income  
16 neighborhoods, may not be practically served with brick and  
17 mortar branches. However, readily accessible convenience or  
18 general merchandise retail establishments may be rapidly and  
19 economically utilized to become Remote Deposit Capture or  
20 account servicing locations. For example, there's  
21 advancements in kiosk technology with web conference  
22 attendance, cash acceptors, bill payment, and check cashing.  
23 There are all now on the horizon further making this type of  
24 branchless banking even more accessible. This is especially  
25 true for rural areas where building a branch may not be --

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1 may be cost prohibitive.

2 Community or potential bank account market segments  
3 needs ready to access payment and savings devices and  
4 methods.

5 So if we look at what a community is, it may not  
6 necessarily be a geographic area if you can distribute card

7 products and services without respect to a specific  
8 geographic location. It could be, you know, a chain of  
9 convenience stores that could be spread across the country.

10 As described in current CRA regulations for banks  
11 servicing military personnel, the assessment area may be  
12 defined as the entire bank customer base which in essence  
13 abandons assessment areas altogether.

14 Therefore, similarly and diverse geographically  
15 unbound groups of bank deposit customers could be considered  
16 a community. Examples of such unbound communities are  
17 affinity groups, memberships, and employee groups.

18 Development of banking services to these unbound  
19 communities is accomplished with a Remote Deposit Capture and  
20 branchless banking of prepaid debit card issuance. These  
21 debit products and services can be treated as paperless NOW  
22 accounts. The framework is well established there, with  
23 account holders being acquired via branchless banking. The  
24 account deposits are made by traditional direct deposit in  
25 other ACH mechanisms and via cash account servicing at the

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1 RDC locations.

2 The account holders have access to online and  
3 telephonic banking services including account management,  
4 bill payment, historical data, funds movement and purchase of  
5 additional banking services such as insurance, CDs, micro  
6 loan programs or similar other overdraft protections, offered  
7 at competitive rates. These can be designed to add value to  
8 the account holders that can qualify for the loans.

9 while most of these concepts are not new, what may  
10 be required for scoring of CRA is low to no cost account  
11 holder value propositions. In today's marketplace of prepaid

12 debit cards, what is typically found are monthly and  
13 transaction fees that can cost the account holders over five  
14 dollars per month. Often there are ATM withdrawal fees of  
15 over two dollars, which does not include surcharges. Today,  
16 the main reason higher fees are found in reloadable prepaid  
17 card products is the legacy pricing models that have only yet  
18 begun to evolve. Ten years ago when prepaid debit card  
19 products first emerged in the marketplace, these products  
20 were designed primarily by marketing entrepreneurs and not  
21 banks. So what developed was a system where the marketing  
22 companies became card program managers for the card issuer  
23 banks. Banks developed a wholesale pricing scheme for the  
24 program managers that is found today as a near uniform design  
25 across a few participating institutions, and has yet been met

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1 with competitive forces to compel reduced rates to the  
2 cardholders.

3 DIRECTOR BOWMAN: Mr. Kenny, if I could get you to  
4 wrap up.

5 MR. KENNY: Yes. I'm right there.

6 A streamlined issuance process with less layered  
7 production costs, coupled with feature rich account delivery  
8 in remote locations, can provide these banking services, and  
9 the idea would be to streamline or stream the transactions to  
10 these banks -- community banks at large, not just a few  
11 larger institutions -- so that they can afford their  
12 communities the ability to issue cards.

13 DIRECTOR BOWMAN: Thank you, sir.

14 MR. KENNY: Thanks.

15 DIRECTOR BOWMAN: All right. Georgia State Senator  
16 Vincent Fort.

17 SENATOR FORT: Good afternoon. My name is Vincent

18 Fort. I serve in the Georgia State Senate, 39th District,  
19 which goes from the south side of Atlanta to north Atlanta.  
20 As a matter of fact, you're sitting in my senatorial district  
21 right now.

22 DIRECTOR BOWMAN: And we're happy to be here, sir.

23 SENATOR FORT: Glad to have you.

24 I'd like to talk today about the Community  
25 Reinvestment Act in the context of what we have experienced

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1 here in Atlanta, with regard to banks' involvement in the  
2 subprime mortgage lending business.

3 Here is what we've experienced.

4 One, the evolution in the rise of the destructive,  
5 abusive, predatory subprime mortgage lending business in  
6 Atlanta from the early '90s until today.

7 Two, which despite the massive community response  
8 we in Atlanta, Georgia, undertook to stop it, dramatically  
9 expanded through the '90s and the early 2000s, devastating  
10 many of our inner city mostly minority homeowners and  
11 communities, many of whom are in my district, who have been  
12 and still are being extremely hard hit by an ever increasing  
13 volume of foreclosures as a direct result of the decade long  
14 practice of making completely unaffordable loans to  
15 homeowners in order to satisfy wall street's demand for  
16 mortgages to fill its subprime mortgage backed security  
17 pools.

18 Three, the major national banks have played -- the  
19 role that the major national banks have played in this  
20 ruinous expansion of predatory lending.

21 And four, the utter failure of the federal  
22 regulators charged with the overseeing of national banks to

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23 address the banks' role in this disaster in any constructive  
24 way. And there were constructive ways that could have been  
25 employed to deter the bank disaster's involvement,

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1 particularly with regard to the enforcement of the Community  
2 Reinvestment Act.

3 we have a lot of history here in Atlanta and in  
4 Georgia with legislation regarding predatory lending. I'm  
5 sure that y'all are somewhat familiar with it. It's been  
6 written about in a chapter in this book, "Broke U.S.A." and I  
7 commend that to you. I will not go into all of the details  
8 of what happened here in Georgia, except to say that we  
9 passed the strongest anti-predatory lending law in the  
10 country, and it was undone just a few months after it was put  
11 into place, with the collaboration, unfortunately, of the  
12 national banks, federal regulators, including the OCC, rating  
13 agencies and other financial institutions.

14 In 2003, under a flurry of intense lobbying and a  
15 blizzard of activity, the Georgia Fair Lending Act was  
16 gutted, with many of its strongest provisions removed or  
17 substantially weakened. National banks descended on  
18 Georgia -- on the Georgia capital to do everything possible  
19 to weaken or eliminate this law.

20 My time is up.

21 DIRECTOR BOWMAN: Please go ahead and move to your  
22 issues, if you would, sir.

23 SENATOR FORT: well, there are two things that I  
24 want to -- and I'll pass on my revised comments to you  
25 later -- but there are two things that I wanted to ask this

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1 body to consider.

2 One is making those predatory lending practices  
3 part of the evaluation and assessment in the Community  
4 Reinvestment Act. If that had been done -- if that had been  
5 done 10 years ago, the devastation of many of the  
6 neighborhoods that I represent would not have occurred. We  
7 need the federal regulators to watch out for consumers, watch  
8 out for homeowners, not facilitate what has happened in these  
9 neighborhoods.

10 And two, I want to ask you to take into  
11 consideration one very specific thing. We have organized  
12 here in Atlanta the Atlanta Fighting Foreclosure Coalition  
13 over the last two years. The Atlanta Fighting Foreclosure  
14 Coalition is made up of the faith community, civil rights  
15 community, consumer attorneys, and one of the things that we  
16 have focused on in our discussion with banks -- in particular  
17 with Wachovia/Wells Fargo, and with Bank of America, and  
18 unfortunately Bank of America has not been as responsive as  
19 we would like them to have been -- but in these discussions  
20 with Wachovia/Wells Fargo we have asked them to do real  
21 viable sustained loan modifications. It seems to me that  
22 when we take into consideration the devastation that the  
23 subprime predatory loans have wrought on the communities in  
24 places like Atlanta, that these banks have a responsibility  
25 to do viable sustained loan modifications, which include

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1 riding down the principal balance, which includes not only  
2 trial modifications, but permanent modifications to keep  
3 people in their homes, that these banks have a responsibility  
4 for what they have done, to do loan modifications, and that  
5 loan modifications should be a specific criteria that CRA  
6 compliance is based on.

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7                   So those are my two points today: one, that the  
8 predatory lending practices ought to be made as a criteria;  
9 and two, that loan modifications should be a criteria in CRA  
10 compliance. Without these things being implemented, I am  
11 very skeptical that we can protect the neighborhoods that I  
12 represent and many like it.

13                   And I will close by saying I was -- in the last  
14 couple of weeks I've been particularly distressed by what  
15 I've read about the money laundering that has gone on in  
16 Wachovia/Wells Fargo over the last five to six years. We are  
17 faced with, on the one hand, people being put in bad  
18 predatory loans, oftentimes in Wachovia branches -- these are  
19 not bought mortgages, but mortgages that are made in the  
20 bank -- and at the same time Wachovia/Wells Fargo looking the  
21 other way when drug money, tens of millions, hundreds of  
22 millions of dollars of drug money are laundered through their  
23 banks. It seems to me that that is something that CRA ought  
24 to take into consideration as well. The violation of  
25 criminal statutes is something that banks ought to be held

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1                   accountable for within the CRA process. Thank you very much.

2                   DIRECTOR BOWMAN: Thank you.

3                   Jena Roscoe, Senior Vice President, Chief of  
4 Government Relations and Public Policy for Operation HOPE.

5                   MS. ROSCOE: I'm Jena Roscoe. I'm happy to address  
6 you today on behalf of Operation HOPE.

7                   Operation HOPE is a nonprofit public benefit  
8 organization founded immediately after the civil unrest in  
9 1992 by our chairman and CEO, John Hope Bryant. Currently,  
10 Ambassador Andrew Young serves as our global spokesperson and  
11 Quincy Jones serves as the co-chair of our five million kids

12 initiative to deal with the dropout prevention initiative  
13 nationwide.

14 I'm here today to address the topic of access to  
15 banking services. According to the July 20, 2010, Pew Report  
16 entitled, "Unbanked by Choice: A Look at How Low Income Los  
17 Angeles Households Managed Their Money That They Earned,"  
18 half of low income families in greater Los Angeles turned to  
19 costly and unregulated alternative financial services rather  
20 than banks to meet their monetary needs. The study found  
21 that one-third of the unbanked conduct all transactions in  
22 cash, leaving them open to theft, fraud and loss. This is a  
23 troubling study that offers an opportunity for modernizing  
24 the regulations upon implementing CRA.

25 How should access to financial services be

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1 considered under CRA? CRA should require financial  
2 institutions to provide every adult American with access to  
3 an electronic debit card accessible depository account  
4 protected by the FDIC and NCUA. According to the FDIC's  
5 Alliance for Economic Inclusion, there are estimated 28  
6 million Americans that are unbanked and 44.7 million are  
7 underbanked.

8 The lack of a bank account can be a devastating  
9 effect. Operation HOPE witnessed this through its Project  
10 HOPE initiative in the Gulf Coast through our HOPE Coalition  
11 America program in 2005. Thousands of Hurricane Katrina  
12 victims and victims of other natural disasters were unable to  
13 make payments from their FEMA -- from FEMA because they did  
14 not have a bank account to which funds could be wired.  
15 Operation HOPE has successfully educated over one million  
16 Americans around financial literacy and economic empowerment.

17 Should agencies revise CRA to include additional

18 regulatory incentives to provide access for services for  
19 historically underserved and distressed areas? CRA should  
20 require financial institutions to create programs for  
21 historically underserved and distressed populations. On  
22 April 7 Operation HOPE in Atlanta announced and broke ground  
23 on its Financial Literacy Empowerment Center at Ebenezer  
24 Baptist Church. We are working with the financial service  
25 roundtable and FDIC insured banks and other financial service

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1 institutions to help convert check cashing customers into  
2 banking customers, renters into home owners, small business  
3 dreamers into small business owners and entrepreneurs.

4 Access to a bank account or a relationship with a  
5 financial institution should be available to every American  
6 citizen, and financial institutions should create specific  
7 programs for historically underserved, underbanked, and  
8 distressed populations.

9 Thank you.

10 DIRECTOR BOWMAN: Thank you very much.

11 Dana Boole, President and Chief Executive Officer,  
12 Community Affordable Housing Equity Corporation and the  
13 National Association of State and Local Equity Funds.  
14 Welcome.

15 MR. BOOLE: Thank you very much.

16 My name is Dana Boole, President and CEO of  
17 Community Affordable Housing. We are a nonprofit located in  
18 Raleigh, North Carolina, which raises equity capital for  
19 investment in rental affordable housing using the Low-Income  
20 Housing Tax Credit Program.

21 I'm also incoming President of NASLEF, which is the  
22 National Association of State and Local Equity Funds, so

23 similar to CAHEC. We are managing roughly \$7 billion dollars  
24 of investor capital that is invested in roughly 100,000 units  
25 in 35 states. So that's the perspective that we're looking

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1 at.

2 A considerable portion of the capital we raise is  
3 from banks that are incentivized to invest in housing for two  
4 basic reasons. They earn a competitive rate of return and  
5 they're able to satisfy the investment test of the CRA.

6 At the outset, the CRA is absolutely essential for  
7 the continued operation of the LIHTC program as an effective  
8 and critically important inducement for bank investment. Our  
9 issue is not with the effectiveness of CRA as a catalyst for  
10 investment, but rather the distortion that CRA creates as to  
11 the geographic location of such investment. We believe that  
12 CRA has the unintended consequence of steering bank  
13 investment in LIHTC properties frequently away from rural and  
14 smaller markets and toward the larger metropolitan areas, and  
15 echoing what a lot of the panelists have covered throughout  
16 the day. This is a particular concern to NASLEF members who  
17 frequently expend a lot of their capital in non-urban markets  
18 throughout the country.

19 Specifically, section 12-7 of the interagency Q&A  
20 regarding community investment discusses an institution's  
21 community development activities. We endorse the objective  
22 of this language, but believe the challenge resides with its  
23 implementation. Based on our experience, we continually see  
24 that bank examiners are not consistent in the interpretation  
25 of this language.

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1           We recommend modifying the language to provide that  
2 an institution that has been determined on its last exam to  
3 have adequately addressed the community development needs of  
4 its assessment area will receive full credit for community  
5 development activities that benefit geographic areas located  
6 somewhere within the broader statewide area, as the reg  
7 shares, and in many cases, regional areas that includes the  
8 institution's assessment area, even if those activities do  
9 not benefit its assessment area.

10           So really looking at the waterfall of taking care  
11 of the assessment areas first, allowing them to expand  
12 throughout the balance of the state, which is directly going  
13 to address a lot of the rural concerns that we have expressed  
14 today, and then lastly, in some instances, to go beyond those  
15 borders.

16           All NASLEF members prefer to limit the concept to  
17 investment in areas outside the assessment area, but within  
18 the same state. Similarly, there are NASLEF members who are  
19 also comfortable applying this more broadly to investment in  
20 areas within the same region using the example I just shared.

21           Alternatively, this proposal could be structured  
22 more narrowly to apply only to LIHTC investments, rather than  
23 to all community development activities that benefit a  
24 broader area. We believe this more limited approach for  
25 LIHTC investments would be consistent with the purpose of

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1 CRA, which is to ensure that banks serve lower income  
2 traditionally underserved populations which are in the areas  
3 that they do business.

4           Thank you very much.

5           DIRECTOR BOWMAN: Thank you, sir.

6           Mr. Charles Malloy, Executive Director, Community

7 Development Corporation of Marlboro County. Welcome.

8 MR. MALLOY: Thank you.

9 Thank you for the opportunity for me to share. All  
10 through my community they're asking me, "What hat are you  
11 wearing today?"

12 Do you have my outline? So let me kind of share  
13 with you.

14 My name is Charles Malloy. I am the Executive  
15 Director of the Community Development Corporation of Marlboro  
16 County. I'm a member of the South Carolina Association of  
17 CDCs headed by Mr. Bernie Mazyck. I'm also a member of  
18 National Community Reinvestment Coalition with Mr. John  
19 Taylor, and I happen to be the Chairman of the Social Concern  
20 Committee of the African Methodist Episcopal Zion Church,  
21 South Atlanta Episcopal area, which also covers Atlanta, and  
22 South Carolina where I'm from. And I'm a rural person, so I  
23 have all of these that I come to share with you.

24 I assure you today that I'm probably like everybody  
25 has already said what I was going to say, so whatever I'm

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1 going to say, I'm going it fast, and so therefore you won't  
2 miss too much by me speaking fast.

3 (Laughter)

4 The CDC of Marlboro County is a 501C3 organization  
5 that provides service to a five-county area in northeastern  
6 South Carolina, which is the Pee Dee region, which is part of  
7 the region of the Pee Dee bank, and we are one the lowest --  
8 with highest unemployment, lowest per capita income within  
9 our state. In our state, as you know, South Carolina is  
10 probably the lowest in almost everything that is good.

11 we provide pre and post home counseling and

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12 foreclosure counseling for our constituency. We also asset  
13 building through the IDA program which is the first-time home  
14 buyers education and small business development.

15 The lack of enforcement of CRA requirements has led  
16 to predatory-like interest rates and so our constituency.  
17 For example, we had a client that had an interest rate about  
18 11.5 percent plus it was a ARM. The payments started at  
19 about 426 per month, which was affordable, and now has  
20 elevated to 575 per month, and with another elevation  
21 scheduled in one and one-half years. Today she is in our  
22 foreclosure counseling to attempt a loan modification, and I  
23 would say the lender is not very cooperative.

24 My community requests that CRA regulations be  
25 enforced. It may not have prevented everything that has

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1 happened, but I think we would be better off. Expand the  
2 requirement that all financial institutions be included in  
3 the CRA guidelines, and that's including all banks, mortgage  
4 and others. That financial institutions declare their  
5 relationship with other institutions. I think one of the  
6 problems, we wouldn't have any predatory lending --

7 (Interruption of conference call operator)

8 MR. MALLOY: Do I get another three minutes?

9 (Laughter)

10 DIRECTOR BOWMAN: Just wrap it up, if you would.

11 MR. MALLOY: My time is already up?

12 DIRECTOR BOWMAN: Yeah. Finish up, if you could.

13 MR. MALLOY: Okay. Thank you for the interruption.

14 (Laughter)

15 MR. MALLOY: Reduce or eliminate exemptions for the  
16 data reports of banks and non-banks, and that is who loans  
17 are made to, and that's HMDA data is designed to do that

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18 because it does not carry all of the data that is necessary.  
19 Reduce or eliminate exemptions from reporting loans where the  
20 lender does not have a branch in a non-metropolitan area.

21 I share with you today that this organization has  
22 not had a foreclosure to date for any loan that we have  
23 provided counseling and financial assistance to. We've been  
24 in business for about seven years, and we're not a -- we're a  
25 rural area probably about 27 loans or 30 loans, in that

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1 neighborhood. Therefore, we believe that if CRA regulation  
2 had been enforced, and with proper pre and post counseling,  
3 that we would not have the financial crisis that we are  
4 facing today and in the future from mortgage lenders. And I  
5 thank you for the opportunity --

6 DIRECTOR BOWMAN: Thank you, sir.

7 MR. MALLOY: -- and for that extra minute. Thank  
8 you very much. Have a great day.

9 DIRECTOR BOWMAN: Janice Mathis, Vice President,  
10 Rainbow PUSH Coalition.

11 MS. MATHIS: Good afternoon.

12 DIRECTOR BOWMAN: Good afternoon.

13 MS. MATHIS: Well, thank you for the opportunity to  
14 be here today, offer a few thoughts about proposed regulation  
15 implementing the Community Reinvestment Act. Rainbow PUSH,  
16 with our 300,000 members and chapters all over the country,  
17 encounter CRA in a variety of ways, but I want to limit my  
18 comments today to just two of those.

19 The first involves a category of members we call  
20 trade bureau members. They are primarily disadvantaged  
21 business owners. They operate mostly in urban areas  
22 throughout the country -- Chicago, Atlanta, New York,

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23 Washington, Los Angeles, San Francisco, Houston, and New  
24 Orleans -- and these members are almost exclusively minority  
25 business enterprises.

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1 Over the past 10 years I've worked here in Atlanta  
2 to try to help them grow and sustain their businesses, and  
3 there is the most intractable, insoluble problem in obtaining  
4 credit right here in Atlanta. I know we have problems in the  
5 rural areas, but it is the number one issue that they face  
6 all the time, and it is not just marginal firms. All of the  
7 members of the Black Enterprise 100 are also members of  
8 Rainbow PUSH Coalition's trade bureau, and my job is to help  
9 level that playing field and create opportunity for them.

10 Finding credit is the number one issue that they  
11 face, and I've heard people talk about community  
12 reinvestment, community development. Many of these  
13 underserved communities want to be developed, but they want  
14 to do it in an organic way the way every other community does  
15 it, by creating business enterprises that are indigenous to  
16 those communities that create jobs, that are sustainable and  
17 hire the people who live in those communities, and that's a  
18 tough job. Like the canary in the mine, when credit started  
19 to dry up for everybody, credit disappeared in minority  
20 communities and so they are left with virtually no bank  
21 credit. Prior to the economic recession such credit as was  
22 available to these firms required extraordinary  
23 documentation. You're talking about putting up your home,  
24 personal guarantees, and these are some -- if I named them  
25 you would recognize their names because they're some of the

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1 most profitable long-standing African-American owned  
2 businesses in this city -- have to go to New York and  
3 California to get capital in order to expand.

4           And then I looked at just a cursory review of the  
5 CRA ratings between 2004 and 2010. Only 63 banks across the  
6 nation received a rating of needs to improve or substantial  
7 noncompliance. One was in Florida, four were in Texas, and  
8 six were in the deep south -- what I call my region, the  
9 Carolinas, Georgia, Alabama and Tennessee. That ratings and  
10 reviews are inconsistent with what I hear and see every day,  
11 that credit scarcity is consistently seen and heard over the  
12 past decade, and I would encourage you regulators to take  
13 action to strengthen the rating system to more heavily weight  
14 the extending of credit to disadvantaged business  
15 enterprises.

16           The other issue that I want to touch on briefly  
17 with my esteemed friend who has left the room, Senator Fort,  
18 he and I have been involved in a lot of public discussion  
19 about foreclosure and Atlanta's been hard hit, like many  
20 other areas of the country. He is right, the major banks  
21 have not made enough sustainable high quality loan  
22 modifications. But when you compare -- when I compare my  
23 experience -- and we've worked with hundreds of families over  
24 the last two or three years -- the rate at which banks  
25 covered by CRA are willing to do a sustainable modification

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1 far outstrips institutions that are not covered by CRA.

2           So I would echo the comments of those who earlier  
3 today said, "We want to see more institutions covered by  
4 CRA," because we think that will make them more responsive to  
5 the communities that they are designed to serve.

6           I want to thank you. We've got lots more we could

7 say, but I'll leave it right there. I appreciate the  
8 opportunity.

9 DIRECTOR BOWMAN: Thank you.

10 President David -- or David Young, President of the  
11 Georgia Affordable Housing Corporation.

12 MR. YOUNG: Thank you, but I have no aspirations  
13 for being president. Appreciate that though.

14 (Laughter)

15 My name is David Young. I'm president of the  
16 Georgia Affordable Housing Corporation, and I'm also here  
17 representing as a board member of the Georgia State Trade  
18 Association of Nonprofit Developers.

19 The Georgia Affordable Housing Corporation is a  
20 nonprofit organization that was established in 1998 to  
21 advance affordable housing initiatives in low and moderate  
22 income households across the state of Georgia. GAC serves as  
23 a loan originator, closing agent and servicer in its role as  
24 an intermediary and servicer for its current 22 member  
25 financial institutions and funders here in Georgia. We were

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1 created primarily to fund CRA opportunities for community  
2 banks and financial institutions across Georgia.

3 Currently both of our organizations, both GAC and  
4 GSTAND, have always been active -- for about 10 years now --  
5 actively concerned about the access of capital in low and  
6 moderate income areas -- both rural and underserved, low and  
7 moderate income areas across the state of Georgia, and  
8 currently we are even more concerned because of the economic  
9 and banking crisis in which a number of banks in Georgia have  
10 failed as well as secondary market sources have dried up for  
11 affordable housing opportunities in these markets.

12 This restriction of capital in the low and moderate  
13 income sector is one reason why we support the continued  
14 broadening of lending guidelines for CRA. We recognize it,  
15 but there must be some type of balance between how much  
16 additional detail in regulations is added to the program, but  
17 as well a governing qualitative standard in terms of  
18 evaluating how banks or other financial institutions continue  
19 to perform going forward.

20 In support of continuing the use of CRA and further  
21 improving a flow of capital in rural and underserved markets,  
22 we submit the following recommendations or comments: First,  
23 we feel that current CRA regulations should be amended for  
24 bank holding companies to ensure that CRA activities are  
25 conducted consistently across the geographic footprint and

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1 throughout all of their subsidiaries and affiliates, not just  
2 an emphasis of what's going on at the headquarters' location  
3 of the organization or in that headquarters' state.

4 Second, we seek clarification regarding the  
5 definition of assessment areas so as to prevent a lack of  
6 incentive to invest in rural and underserved markets that may  
7 not be included under the traditional full scope CRA exam.

8 Next, we would like to see that CRA retains, as a  
9 primary purpose, an expansion of low and moderate income  
10 capital, which we can't say enough and you've probably heard  
11 enough today, but especially in -- for households who are  
12 located in rural and underserved markets. They've been  
13 suffering for years and only have been further impacted by  
14 the current crisis.

15 Fourth, we would like to see that there is more of  
16 a qualitative assessment in these markets -- sorry --  
17 especially when considering that a 20-unit impact can have

18 substantial -- a 20-unit project can have a substantial  
19 impact in that market, versus a quantitative guideline that  
20 might not include that particular project in it.

21 My time is up, I understand that. But again, we  
22 support the continued use of an effective CRA program, a  
23 balanced program that does not add so much additional rules  
24 and regulations to the program, but that incorporates a  
25 qualitative component that banks can use in those local

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1 markets, especially in rural and underserved markets, to  
2 ensure that those banks are looking at focusing on the needs  
3 of those who are seeking out to help the low and moderate  
4 income in those areas.

5 DIRECTOR BOWMAN: Thank you, sir.

6 MR. YOUNG: Thank you so much for your time.

7 DIRECTOR BOWMAN: And finally, Young Hughley,  
8 President and Chief Executive Officer, Resources for  
9 Residents and Communities. And I hope I pronounced your last  
10 name correctly, sir.

11 MR. HUGHLEY: You did.

12 DIRECTOR BOWMAN: All right. Good.

13 MR. HUGHLEY: Thank you. It's been interesting,  
14 being here today. My name is Young Hughley. I'm CEO of  
15 Resources for Residents and Communities of Georgia.

16 We started out as a neighborhood-based organization  
17 working in the Reynoldstown community, and we expanded our  
18 scope of services five years ago. Our business lines are  
19 home ownership counseling, affordable housing, community  
20 building and multi-family development.

21 But my -- I sit on the board of -- geez -- well,  
22 AHAND, the Atlanta Housing Association of Neighborhood-based

23 Developers, as well as a member of GSTAND, the trade  
24 association that David talked about, and I'm also on the  
25 board of ANDP, Atlanta Neighborhood Development Partnership.

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1 But my heart is around community stabilization. And  
2 because of what has happened to this country in terms of the  
3 economy and the subprime lending and the fraudulent  
4 practices, our community is really unstable and we really  
5 need to look at that, the community stabilization piece. And  
6 I feel that in the next three to five years there needs to be  
7 a focus on that, and CRA needs to emphasize that focus around  
8 stabilization of communities.

9 Banks are selling homes to investors because they  
10 want to get rid of the properties that are foreclosed. I  
11 think we need to look at some way in those bulk cells to get  
12 community development corporations in partnership with those  
13 investors who are buying those homes so we can get them back  
14 on tax rolls and get people in those homes. That's one of  
15 the concerns I have.

16 The other one is, property values have been  
17 tremendously impacted by this -- these circumstances and  
18 appraisals are really skewed, and they're skewed mainly  
19 because of, once again, no doc loans and fraudulent practices  
20 by investors. We need to look at those property values some  
21 way, in terms of appraisals, and take out the junk so that we  
22 can get to some type of normalized appraisal value of  
23 property so that our neighborhoods can come back.

24 And we need to encourage partnerships with the  
25 banks in terms of investing more in home ownership

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1 counseling, pre and post purchase counseling, and we need to  
2 help -- the banks need to really do marketing campaign  
3 encouraging everybody to take home ownership counseling,  
4 because we know that people who do home ownership counseling  
5 are less likely to end up in crazy products.

6 Thank you for your time.

7 DIRECTOR BOWMAN: Thank you, sir.

8 MR. HUGHLEY: I appreciate it.

9 DIRECTOR BOWMAN: I'll try one last time, Veatrice  
10 Farrell?

11 (No response.)

12 DIRECTOR BOWMAN: No? All right.

13 I'd like to remind everybody that a transcript of  
14 this entire hearing will be available shortly on the OTS  
15 website, which I believe is [www.ots.treas](http://www.ots.treas.gov) -- t-r-e-a-s --  
16 .gov -- g-o-v.

17 The hearing has been recorded and an audio  
18 recording will also be posted to that same website, and any  
19 interested persons, including panelists and individual  
20 presenters, may also submit written statements for the record  
21 in addition to what they have already provided, if any. The  
22 deadline for submitting those written statements is August  
23 31, 2010.

24 Finally, I'd like to extend my thanks to all the  
25 participants for the unique perspectives and recommendations.

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1 we've gleaned important insights today that will prove very  
2 helpful in shaping the future of the CRA.

3 I also want to thank OTS and the Federal Reserve  
4 Board staff for organizing this hearing.

5 Our next hearing is set for Thursday, August 12 in



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6 Chicago, Illinois, and it has been organized by our  
7 colleagues at the Federal Reserve Board. That hearing will  
8 focus on topics that matter to many stakeholders, such as  
9 geographic coverage and affiliate activities. I look forward  
10 to the event, and wish everyone a good evening and safe  
11 travels home. Thank you.

12 Do you have anything else?

13 MR. BURNISTON: No. Thank you very much.

14 DIRECTOR BOWMAN: Thank you all very much.

15 (Whereupon, the proceeding was concluded at 3:35  
16 p.m.)

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1 C E R T I F I C A T E

2 STATE OF GEORGIA)

3 COUNTY OF BUTTS)

4

5 I, Susan M. Breedlove, Certified Court Reporter, do  
6 hereby certify that the foregoing proceedings were taken down  
7 by me as stated in the caption; that the foregoing  
8 proceedings were reduced to print by me; that the foregoing  
9 pages represent a true and correct transcript of the  
10 proceedings.

11 I further certify that I am neither kin nor counsel

12 to any of the parties and am not financially interested in  
13 the outcome of the action.

14 This 11th day of August, 2010.

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SUSAN M. BREEDLOVE

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Certified Court Reporter

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PROOFREADER'S CERTIFICATE

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4 In the Matter of: Federal Reserve Bank of Atlanta

5 File Number: 79583

6 Date: Friday, August 6, 2010

7 AMENDED 09/01/10

8 Location: Atlanta, Georgia

9

10

11 This is to certify that I, Robert T. Moser, (the  
12 undersigned), do hereby swear and affirm that the attached  
13 proceedings before the Office of Thrift Supervision were held  
14 according to the record and that this is the original,  
15 complete, true and accurate transcript that has been compared  
16 to the reporting or recording accomplished at the hearing.

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21 \_\_\_\_\_  
(Proofreader's Name)

\_\_\_\_\_ (Date)

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