St. Louis Equal Housing and Community Reinvestment Alliance
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Member Organizations

Coalition of Concerned Citizens, Alton Area

Center for the Acceleration of African American Business

Community Action Agency of St. Louis County

Community Resource and Development Organization

Consumers Council of Missouri

Justine Petersen

Lemay Housing Partnership

Metropolitan St. Louis Equal Housing & Opportunity Council

Missourians Organizing for Reform and Empowerment

MoKan

NAACP St. Louis

North County Churches Uniting for Racial Harmony and Justice

Ready, Aim, Advocate! Committee

April 30, 2013

Re: Proposed Changes to Interagency Q&A

OCC: Docket ID OCC-2013-0003
Federal Reserve: Docket No. OP-1456
FDIC: Attention: Comments on CRA Interagency Q&A

To Whom It May Concern:

The Community Action Agency of St. Louis County (CAASTLC) would like to offer written public comments on the proposed changes to the CRA Interagency Question and Answer (Q&A). The mission of CAASTLC, Inc. is to end poverty. We are committed to helping the families and communities of St. Louis County prevent the conditions of poverty for present and future generations.

CAASTLC is a member of The St. Louis Equal Housing and Community Reinvestment Alliance (SLEHCRA). SLEHCRA is a coalition of non-profit organizations serving the St. Louis metropolitan area that is working to increase investment in low- and moderate- income communities, regardless of race, and minority communities, regardless of income, by ensuring that banks are meeting their obligations under the Community Reinvestment Act and fair lending laws.

Although CAASTLC acknowledges that the proposed changes to the Interagency Question and Answer (Q&A) document would be modestly helpful, the proposed changes fall far short of the comprehensive revisions to the CRA regulation needed to keep pace with the changes in the banking industry. In the wake of the foreclosure crisis and the slowdown in lending, we believe that the agencies must implement bold and aggressive changes to the CRA regulation in order to increase responsible lending, investing, and services in low- and moderate-income communities.

Assessment Areas

The agencies propose to motivate increased community development lending and investing in smaller cities and rural areas by facilitating lending outside of banks' assessment areas (or geographical areas containing bank branches that are scrutinized by CRA exams). Currently, a bank receives favorable CRA consideration for lending and investing in statewide or regional areas that includes the bank's assessment area(s) provided that the bank is adequately serving the needs of its assessment area(s). The agencies propose to change this to providing favorable CRA consideration for community development financing in the larger areas as long as the financing in the larger areas are not "in lieu of or to the detriment of" financing in the assessment area(s).

These proposed changes would modestly facilitate community development financing in smaller cities and rural communities, but these changes are much less effective than broader changes to banks' assessment areas would be. Currently, assessment areas are only those geographical areas containing bank branches, although several banks, especially large banks, make considerable numbers of loans beyond their branch networks through loan officers, brokers, or correspondent lenders. In the St. Louis MSA, banks such as Wells Fargo and JP Morgan Chase have originated high numbers of mortgage loans while not including the area as part of their CRA assessment areas due to the absence of depository branches. In a 2011 report[1], the Metropolitan St. Louis Equal Housing Opportunity Council found that Wells Fargo had the lowest share of originations to low- and moderate-income borrowers of all top ten lenders, with only 17.2 percent of originations. In the same report, JP Morgan Chase Bank was noted for having the lowest percentage of originations to African American borrowers compared with the other top lenders at 2.8 percent. This is despite the fact that both banks are among the top 10 mortgage lenders in the region.

The agencies should designate additional assessment areas for counties and metropolitan areas in which a bank makes sizable numbers of loans but in which the bank does not have branches. This is not difficult to do; the former Office of Thrift Supervision (OTS) assessed performance in geographical areas with high numbers of loans beyond bank branch networks. Expanding assessment areas would be more effective in stimulating increased community development financing and home and small business lending than the tortured semantic and legalistic changes proposed to the Q&As.

Community Development Lending

In addition, the agencies are missing an opportunity to assess the effectiveness of their proposed changes by not requiring additional data disclosure of community development lending and investing. For the past several years, NCRC and its members have been advocating for the agencies to publicly provide data on community development lending and investing on a census tract level or at least on a county level. If county level data was available for community development financing, the agencies and the public at large could assess how effective any proposed changes to the regulation or Q&As would be in stimulating more community development financing in rural counties and smaller cities while ensuring that the current assessment areas do not experience significant declines in community development financing. The data would either reconfirm any recent changes or would prompt additional changes.

The agencies must also refrain from altering examination weights in their proposed Q&A on community development lending. While it is desirable to affirm the importance of community development lending as the first part of the proposed Q&A does, the second part of the Q&A stating that strong performance in community development lending can compensate for weak performance in retail lending must be deleted. Since retail lending is the predominant part of the lending test, it is unlikely that strong performance on community development lending can or should compensate for weak performance on retail lending.

Better methods can be developed for elevating the importance of community development lending. Either examination weights can be more fully developed on the lending test or community development lending and investing should be considered together on a community development test. A change to a Q&A cannot adequately deal with the complex issue of weighing community development lending and could inadvertently decrease the level of bank retail lending.

Service Test

[1] Redlined: A Fair Lending Analysis of the St. Louis Metropolitan Area

The proposed Q&As do not address the glaring deficiencies of the service test. While bank branches are closing, some large banks are now engaged in abusive payday lending. Many banks, including a few active in the St. Louis MSA, have also started offering prepaid card products along with traditional banking services. While prepaid cards could financially benefit a portion of the unbanked and underbanked population, they are not subject to the same regulations as credit or debit cards and therefore could easily put customers at risk due to hidden fees. The lack of FDIC insurance on prepaid cards is another concern and a significant risk to the consumer. Also, prepaid cards do not help customers build credit and keep them trapped in an unbanked system. A more rigorous service test that assesses data on bank deposits and alternative financial services in addition to bank branches in low- and moderate-income communities is urgently needed.

Include Bank Lending and Service to Minorities on CRA Exam

In St. Louis inequalities continue to exist in lending as minorities are less likely to receive loans. According to the 2011 Home Mortgage Disclosure Act ("HMDA") data for the aggregate St. Louis metropolitan area, mortgage lending institutions originated only 3.87 percent of loans to African-Americans and less than 1.01 percent to Hispanic borrowers.[2] In comparison, according to the 2010 Census, the St. Louis metropolitan area population is 76.5 percent white, 18.4 percent African-American, and 2.6 percent Hispanic.

Given the evidence of lending disparities by race, we believe that CRA exams must explicitly examine lending and services to minority borrowers and communities. A large body of research shows that minorities received larger percentages of subprime loans than whites, even after controlling for borrower creditworthiness and other characteristics. Overall, it is probable that considering lending and branching by race of borrower and neighborhood on CRA exams would lessen the racial disparities by encouraging banks to increase their lending and services in communities of color. Before the 1995 changes to the CRA regulation, CRA exams considered lending to minorities as an assessment factor, suggesting the agencies thought they had the authority to consider lending to minorities on CRA exams.

Evaluation of Loan Purchases Versus Originations

Still another issue that is not addressed by the proposed changes to the Q&A is loan purchases versus originations. NCRC and its members have commented recently on CRA exams in which banks are making few loans to low- and moderate-income borrowers but purchasing several loans made to these borrowers from other banks. Making loans represents a more concerted effort to serve community needs than purchasing high volumes of loans. Existing Q&As warn banks against purchasing loans to "artificially inflate CRA performance." But since this behavior continues, the Q&A needs to be strengthened by saying that CRA examiners will separately evaluate originations and purchases and will downgrade banks if the purchasing is conducted in a manner to inflate the CRA rating.

Three years after the summer 2010 hearings in which the agencies received hundreds of comments, the CAASTLC is profoundly disappointed that the agencies are proposing half measures in the form of Q&As while the agencies need to engage in comprehensive reforms regarding assessment areas, the service test, foreclosure prevention, and the consideration of loan purchases on CRA exams. We urge prompt and comprehensive reform to the CRA regulations.

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[2] Data for one to four family, owner-occupied, first lien originations from the FFIEC.

Thank you for your consideration.

Sincerely,

Merline Anderson
Executive Director
Community Action Agency of St. Louis County