



CITY OF LOS ANGELES
OFFICE OF THE CHIEF LEGISLATIVE ANALYST

GERRY F. MILLER
CHIEF LEGISLATIVE ANALYST

SHARON M. TSO
EXECUTIVE OFFICER

ROOM 255 • CITY HALL
200 N. SPRING STREET
LOS ANGELES, CA 90012
213.473.5746
FAX 213.485.8983

August 31, 2010

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Mr. Feldman,

Pursuant to a request for public input by the Federal Deposit Insurance Corporation and other federal agencies, we hereby submit the attached comments prepared by the City of Los Angeles for your consideration with regard to modifying the regulations that govern the Community Reinvestment Act (CRA) (Attachment A).

The Federal Insurance Deposit Corporation (FDIC), Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve (Board), and the Office of Thrift Supervision (OTS) have held joint public hearings throughout the United States, including Los Angeles on August 17, 2010, to consider public comments related to modifying the regulations that implement the CRA.

On August 20, 2010, the Los Angeles City Council adopted a Resolution (Attachment B), introduced by Councilmember Bernard Parks, in support of modifying the CRA regulations to require financial institutions to allow greater flexibility and access to loans and credit for individuals and small businesses.

The City of Los Angeles finds that with the current housing crisis, financial institutions must commit to actions that result in real opportunities for homeowners, neighborhoods, tenants and others affected by the wave of foreclosures.

Similarly, the CRA regulations must be modified to ensure that financial institutions create greater opportunities for small and minority-owned businesses to allow them to gain access to loans, credit and other investment opportunities.

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
August 31, 2010
Page 2

Consistent with that action, submitted for your consideration are the comments of the City of Los Angeles on proposed CRA Regulation Updates.

We thank you for the opportunity to provide our comments in positive furtherance of the CRA and its intended aims and goals. If you have any questions, please contact Felipe V. Chavez of my office at (213) 473-5729.

Sincerely,


Gerry F. Miller
Chief Legislative Analyst

Attachments: A) City of Los Angeles Comments
 B) City of Los Angeles Resolution

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**COMMENTS OF THE CITY OF LOS ANGELES
ON PROPOSED COMMUNITY REINVESTMENT ACT (CRA) REGULATION UPDATE**

1. One of the most crucial aspects of regulatory reform is closing the loopholes that allow banks to exclude their holding companies and affiliates from the Community Reinvestment Act (CRA). The full spectrum of lending and investment activities should be subject to CRA exams. Recent analysis of the financial crisis shows that many of the problematic sub-prime loans that helped fuel the housing crash were made by bank-holding companies that were not subject to the CRA. Financial institutions should be measured by all of their lending, and not just wherever they have branches or when they choose to disclose the lending of their affiliates. It would be more faithful to the spirit of the law to grade financial institutions based on the range of products that are offered to all communities served.
2. The City of Los Angeles is in the process of implementing the Responsible Banking Act which will set standards for taxpayer dollars invested in the City's short-term portfolio, prioritizing investment in institutions that are, in turn, extending credit and capital to the City's local homeowners, local businesses, and local development projects. Current CRA grades may not adequately track investment activity at the local level. It is recommended that the Federal Deposit Insurance Corporation annual Summary of Deposits survey process be modified to collect information on commercial and industrial lending, and residential mortgage lending, by branch. More disclosure would provide state and local governments and nonprofit advocacy groups with the tools needed to evaluate institutions that are investing in local communities.
3. It is recommended that the FDIC consider introducing an alternative data collection method for institutions that are serving communities with financial products, but do not have a branch located in the local zip code. FDIC could collect CRA reporting elements from financial institutions that do not have a branch but lend within a specified area's zip code such as: the number, total value, and average loan size of residential mortgages within each zip code; the number, total value, and average loan size of commercial real estate mortgages by zip code; and the number, total value, and average loan size of commercial and industrial loans by zip code. This would allow accurate and timely analysis of local re-investment.
4. Currently, bank assessment areas for the CRA tests consist generally of one or more metropolitan divisions, or other political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs. Given that the Community Redevelopment Agency of the City of Los Angeles Redevelopment Project Areas, as well as other California redevelopment project areas, are generally low-income to moderate-income areas, it is recommended that banks be required to include all established redevelopment areas within or in close proximity to its assessments areas.
5. It is recommended that banks and other financial institutions be encouraged to create access to bank branches and deposit-taking ATMs in a safe environment throughout strategic locations in their geographic areas. It is further recommended that small and large banks be encouraged to open facilities within its redevelopment areas and with reasonable store/access hours, including Saturdays. As an example, the Community Redevelopment Agency of the

City of Los Angeles invested \$10 million in Broadway Spring Center, which includes Biddy Mason Park, Broadway-Spring Paseo, and a Wells Fargo Bank Branch, located in the City Center Redevelopment Project Area in downtown Los Angeles. The branch has found success in bringing expanded access to consumers in a redevelopment area in a safe and sound manner both during the week and extended hours on Saturdays.

It is also recommended that banks be encouraged to incorporate bank branches, deposit-taking ATMs, and related facilities to be incorporated into redevelopment projects. Examples can include bank branches within grocery stores or as stand-alone facilities within a new or rehabilitated real estate development. The City of Los Angeles recently approved the establishment of Banking Development Districts to encourage financial institutions, including banks and credit unions to open branches in underserved areas. The City is in the process of developing guidelines and procedures.

The Federal Agencies should revise CRA regulations to include additional regulatory incentives to provide access to services for historically underserved and distressed communities. Many historically underserved and distressed areas are already within redevelopment areas in Los Angeles and across California. It is recommended that the incentives such as additional scoring consideration be provided to those large and small banks that expand access to banking facilities within redevelopment areas, among other historically underserved and distressed areas.

6. To help facilitate community development loans, investments, and services, banks should be encouraged to strengthen partnerships with such organizations as redevelopment agencies and similar types of agencies that seek to make investments in low- and moderate-income neighborhoods. For example, the Community Redevelopment Agency of the City of Los Angeles actively seeks to build deeper relationships with key stakeholders in business that are especially interested in partnering in future real estate redevelopment and economic development projects, as well as community services and events. Such partnerships are crucial to meeting several of the Community Redevelopment Agency of the City of Los Angeles Five -Year Strategic Plan Objectives, including:
 - Construction of at least 5,500 units of affordable housing in Redevelopment Project Areas by June 30, 2014.
 - Creation of at least two publicly-accessible green open spaces in Community Redevelopment Agency of the City of Los Angeles neighborhoods every year in cooperation with other City stakeholders.
 - Adoption of 14 streetscape plans that improve walkability and the pedestrian environment.
 - Partnering in at least three of the following activities in each Community Redevelopment Agency of the City of Los Angeles Region annually: special cultural events, community gardens, guide books, cultural markers and community designations, and art organization and attraction and retention programs.

7. The Community Redevelopment Agency of the City of Los Angeles policies and programs are in place to help facilitate economic development investment in local businesses. These policies and programs will benefit greatly from the partnership with large and small banks as fellow investors, including:

- ***Community Redevelopment Agency of the City of Los Angeles Industrial Incentives Program (IIP)***- In Fiscal Year 2011, IIP will provide conditional loans and grants to eligible industrial and manufacturing businesses that are locating or expanding in a Community Redevelopment Agency of the City of Los Angeles Redevelopment Project Area, completing a rehabilitation or development, creating or retaining living wage jobs, and making efforts to incorporate sustainable principles into their operations and/or their properties.
- ***Community Redevelopment Agency of the City of Los Angeles Economic Development Opportunity Fund (EDOF)***- In Fiscal Year 2011, the EDOF will provide capital to Community Redevelopment Agency of the City of Los Angeles Regions with limited resources to invest in economic development opportunities that will attract new business activities or expand existing businesses, leading to the creation of quality sustainable jobs in a redevelopment project area. EDOF funds are expected to assist new development that will directly create jobs- by financing tenant improvements, capital equipment, relocation and business establishment costs, project-specific public improvements, and other eligible expenditures.
- ***Community Redevelopment Agency of the City of Los Angeles Healthy Neighborhoods Policy***- Among the goals outlined in this Policy, is the establishment of green building standards for proposed new construction and rehabilitation projects.

The City recommends that banks associated with these types of programs be allowed to gain favorable scoring consideration by the Federal Agencies.

8. The City recommends the expansion of the community development definition to include areas specifically designated as redevelopment areas under California state law. The definition could be amended as follows:

“Community development means:

....

(4) Activities that revitalize or stabilize-

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas;
- (iii) Distressed or underserved non-metropolitan middle-income geographies designated by the Federal Agencies based on... ;and,
- (iv) **Redevelopment areas as established under State of California law.”**

9. The Los Angeles Housing Department (LAHD) operates the first-time homebuyer program. In this program’s current rendition, first-time homebuyers approach the LAHD in the hopes of securing soft-second and rehabilitation funding in order to purchase an abandoned or foreclosed, single-family home located in a Neighborhood Stabilization Program targeted area. To the extent that lending institutions work with clients to expedite this process, the City urges positive scoring for such financial institutions.

10. The City works closely with a city-chartered, non-profit organization, Restore Neighborhoods L.A. (RNLA), to acquire multifamily properties, as well as bulk-property portfolios for the purposes of selling and/or renting to income-qualified City residents. CRA Regulations should incorporate incentives for lenders/banks where RNLA is successful. Such incentives could lead to stronger relationships between lending institutions and qualifying City residents.
11. The City administers a pre-development, revolving loan fund called the "New Generation Fund." In its inaugural offering, a variety of private, public and non-profit lending organizations pledged/committed investments to the New Generation Fund. This fund was conceived of as a vital tool, giving LAHD the ability to respond to long-held calls for pre-development funding for affordable housing developers that found it acutely difficult to acquire this funding. Continuing to provide incentives to continue to invest in these loan funds at the local level, such as meeting CRA requirements, would continue to help localities meet their housing needs.
12. With the current housing crisis, financial institutions must commit to actions that result in real opportunities for homeowners, neighborhoods, tenants and others affected by the wave of foreclosures.
13. The FDIC, in conjunction with the Housing and Urban Development Department and local agencies, should create federal banking incentives zones (Fed BIZ). The Fed BIZ would guarantee a specific portion of a bank's investment within the BIZ zone (Risk Mitigation Incentives) where the guarantees would act as incentives for banks to be assured that their investments will not be completely lost due to market failures.
14. In addition to Risk Mitigation Incentives within Fed BIZ, Industrial Development Bond (IDBs) should be made accessible to retail bank establishments within Fed BIZ as further incentive for banks to set up banking services within banking incentive zones.
15. Make CRA ratings more understandable to the ordinary citizen.
16. Require banking institutions that are governed by the CRA to post their CRA rating in their business premises and all marketing material.
17. The Federal Agencies should explore all feasible avenues of encouraging financial institutions to provide valuable lending opportunities to existing and emerging Los Angeles businesses.
18. Small and minority-owned businesses have the ability to create employment opportunities for local residents and make up vibrant local retail business districts. However, with the current financial crisis, small and minority-owned businesses are experiencing great difficulty in accessing credit from major banks. The CRA regulations must be modified to ensure that financial institutions create greater opportunities for small and minority-owned businesses to gain access to loans, credit and other investment opportunities.
19. The development of incentives to ensure that banks and savings institutions meet the lending needs of small taxpayers, with particular attention to residential-based businesses.

AUG 20 2010

10-0002-583

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations, or policies proposed to or pending before local, state or federal government body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, in 1977, the United States Congress passed the Community Reinvestment Act (CRA) to encourage banks and savings institutions to meet the banking needs of all borrowers, including low and moderate income individuals, and ultimately reduce redlining (discriminatory credit practices against low-income neighborhoods). To enforce the act, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) (collectively "Federal Agencies") examine banking institutions for compliance and use that information when approving applications for new bank branches, mergers or acquisitions; and

WHEREAS, the Federal Agencies are in the process of updating the CRA regulations and are currently requesting public input to ensure that the updated regulations reflect changes in the financial services industry, changes in how banking services are delivered to consumers, and current housing and community development needs. The focus is on potential regulatory changes, as opposed to statutory changes, to ensure that the CRA remains effective; and

WHEREAS, the City of Los Angeles should prepare and submit testimony that will lead to responsible banking practices that benefit our local communities. With the current housing crisis, financial institutions must commit to actions that result in real opportunities for homeowners, neighborhoods, tenants and others affected by the wave of foreclosures in California. The Federal Agencies are also proposing a change to the CRA to encourage depository institutions to support the Neighborhood Stabilization Program funded by the U.S. Department of Housing and Urban Development; and

WHEREAS, small and minority-owned businesses have the ability to create employment opportunities for local residents and make up vibrant local retail business districts. However, with the current financial crisis, small and minority-owned businesses are experiencing great difficulty in accessing credit from major banks. The CRA regulations must be modified to ensure that financial institutions create greater opportunities for small and minority-owned businesses to gain access to loans, credit and other investment opportunities; and

WHEREAS, the Council should instruct the Housing Department, Community Development Department, Office of Finance, City Treasurer, Community Redevelopment Agency and any appropriate City department to prepare testimony to be submitted to the Federal Agencies to ensure that the needs of the Los Angeles communities are considered in the process of modifying the CRA regulations. The deadline to submit public written testimony is August 31, 2010;

NOW THEREFORE BE IT RESOLVED that the Council determine, as provided in Section 54954.2(b)(2) of the Government Code and pursuant to Rule 23 of the Rules of the City Council, that there is a need to take immediate action on this matter and the need for action came to the attention of the City Council subsequent to the posting of the agenda for today's Council Meeting.

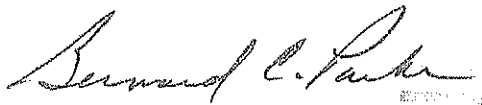
BE IT FURTHER RESOLVED, with the concurrence of the Mayor, that by adoption of this Resolution, the City of Los Angeles hereby includes in the 2009-2010 Federal Legislative Program SUPPORT of modifying the regulations that implement the Community Reinvestment Act to ensure that financial institutions are creating credit opportunities to meet the banking needs of local communities as further described in the text of this Resolution.

AUG 20 2010

BE IT FURTHER RESOLVED that the City Council instruct:

- 1) The Housing Department, Community Development Department, Office of Finance, City Treasurer, Community Redevelopment Agency, and any other appropriate City department to:
 - A) Prepare testimony addressed to the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Office of Thrift Supervision to ensure that the needs of the Los Angeles communities are considered throughout process of modifying the Community Reinvestment Act regulations; and
 - B) Submit the above testimony to the Office of the Chief Legislative Analyst for review by August 26, 2010.
- 2) The Office of the Chief Legislative Analyst to review the testimony provided by the above City departments and submit to the above Federal Agencies by August 31, 2010.

PRESENTED BY


BERNARD C. PARKS
Councilmember, 8th District

SECONDED BY

