August 23, 2010

The Honorable Sheila C. Bair,
Chairman
The FDIC
Washington, DC

Dear Chairman Bair:

I am pleased to provide comments regarding proposed changes to the Community Reinvestment Act on behalf of the Council of State Community Development Agencies, an advocacy and membership group representing state housing and community development agencies across the country. Our members are partners with local governments, nonprofits and for-profits in creating improved housing, community development and jobs throughout the nation. COSCDA members are also the administrators of HOME funds, Homeless Grants, Community Development Block Grants and, more recently, the Neighborhood Stabilization Grants.

COSCDA's membership plays a large role in the same arena where CRA has an impact. Meaningful reforms to CRA will ensure economic recovery that promotes sustainable lending to small businesses for job creation and responsible home lending. While we applaud your intentions to improve CRA, regulatory action alone is not sufficient. Congress needs to apply CRA broadly throughout the financial industry in order to maximize safe and sound lending and investment in communities.

CRA promotes care and sustainability in lending. The law requires safe and sound lending, and would have been a preventative cure to the foreclosure crisis had it covered a broader range of institutions. Research shows that home loans made by banks are much less likely to end up in foreclosure than loans issued by non-CRA covered mortgage companies. In addition, CRA small business and community development lending has totaled more than $1 trillion since 1996.

As beneficial as CRA has been, the following reforms must be implemented in order for CRA to realize its full potential:

- CRA exams must have more ratings in order to provide meaningful distinctions in performance. Over the last several years, 99 percent of banks have passed their CRA exams.

- Mergers and acquisitions have declined, meaning that **additional enforcement mechanisms are needed**. Banks must be required to submit **public improvement plans,** subject to public comment, when they receive a low rating overall or in any of their assessment areas. Fair lending reviews on CRA exams must be more detailed and must include reviews of safety and soundness of loans.

- Incentives for superior CRA performance such as eligibility to more tax credits under the **New Markets or Low Income Housing Tax Credit programs** could be considered, but we are strongly opposed to providing exemptions from merger review or less frequent CRA exams for banks with Outstanding ratings. CRA performance will decline when institutions receive less frequent scrutiny.

- We are supportive of **favorable CRA consideration for investments in multi-regional funds for Low Income Housing Tax Credits and other CRA-related investments as a way to serving diverse areas including rural communities.** Yet, we also believe that the bank must be adequately serving its assessment areas (must have Outstanding on their investment test in most assessment areas) before being allowed to venture outside of their assessment areas.

We believe that the regulatory agencies can contribute significantly to sustainable economic recovery by updating the CRA regulation. In addition, Congress must do its part and apply CRA to non-banks including mainstream credit unions, independent mortgage companies, insurance firms, and investment banks.

Community Development

Some have suggested that banks receive favorable CRA consideration for investing in multi-regional funds for Low Income Housing Tax Credits and other purposes. In the interest of serving diverse geographical areas including rural areas, we are supportive of these suggestions as long as banks have adequately responded to the needs in their assessment areas. A bank could be required to have a rating of Outstanding on the investment test in most assessment areas, for example, before being allowed to invest outside of their assessment areas in multi-regional funds.

The severity of the foreclosure crisis would have been substantially lessened if the entire financial industry had an obligation to serve all communities consistent with safety and soundness. We believe that the regulatory agencies can contribute significantly to ensuring sustainable economic recovery by updating the CRA regulation. In addition, we believe that Congress must do its part and apply CRA to non-bank institutions including mainstream credit unions, independent mortgage companies, insurance firms, and investment banks. Thank you for this opportunity to comment.

Sincerely,

Dianne J Taylor

Dianne Taylor,
Executive Director,
Council of State Community Development Agencies