From: Rashmi Rangan [mailto:RRangan@dcrac.org]
Sent: Friday, August 27, 2010 1:23 PM
To: Comments
Cc: egorman@ncrc.org
Subject: RIN #3064-AD60

August 27, 2010

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On behalf of the Delaware Community Reinvestment Action Council, Inc., (DCRAC), I thank you for convening hearings on the Community Reinvestment Act (CRA) and urge you to strengthen the CRA.

As pivotal a tool as CRA can be in preventing the next crash, equally crucial is the role an updated CRA will play in rebuilding the neighborhoods and businesses decimated by the Great Recession.

Between 1989 and 1999, banks directed over $5 trillion dollars in CRA loans and investments to low-wealth neighborhoods. Communities were thriving. CRA investments were complimented by the work of community groups across the nations and additional financial support from foundations. We know that CRA works. Federal Reserve economists document that home loans made by banks in their CRA assessment areas are about half as likely to end up in foreclosure as loans issued by independent mortgage companies.[1] Although CRA has been instrumental in boosting lending and investing, the neglect of certain parts of the regulation has meant that even in its current form CRA has not realized its full potential. In particular, we believe that regulatory rulemaking should address the following areas:

1. Assessment Areas
2. Inclusion of Mortgage Company Affiliates in CRA exams
3. Include Bank Lending and Service to Minorities on CRA Exams
4. CRA Ratings
5. Opportunities for dialogue among community, regulator, and Financial Institution
6. Data Enhancements for small business lending

Safety and soundness and meeting the credit needs of our communities form the basis for our recommendations.

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[1] Elizabeth Laderman and Carolina Reid, Federal Reserve Bank of San Francisco, "CRA Lending during the Subprime Meltdown in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act," a Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009, http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf

1. **We recommend that the agencies examine CRA performance beyond Assessment Areas**

For a few years, DCRAC and others have argued that Assessment Areas need to be redefined because many banks make their loans through brokers and other non-branch means.

2. **We recommend that Mortgage Company Affiliates MUST be included in a CRA Exam**

Currently, banks are likely to include affiliates on CRA exams if the affiliates perform well, but opt against inclusion if the affiliates are engaged in risky lending or discriminatory policies.

3. **We recommend that Lending and Service to Minorities be considered a factor on CRA Exams**

Research shows that minorities received larger percentages of subprime loans than whites, even after controlling for borrower creditworthiness and other characteristics.[2] 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.

4. **We recommend that two new ratings (High Satisfactory and Low Satisfactory) be included in addition to the existing four CRA ratings**

DCRAC, along with many advocates has been dissatisfied with grade inflation.

5. **We recommend that more opportunities for CRA dialogue among the financial institution, regulatory agency, and community groups be created**

Mergers have traditionally been a major means of CRA enforcement but the merger frequency is likely to decline over the next several years. We recommend that the agencies consider:

1. Requiring banks to submit CRA improvement plans, subject to public comment, when they receive a low rating.
2. CRA exam/merger approval order should include an "expectations section" that either mandates or recommends improvements to specific aspects of CRA performance.
3. CRA exam should provide a detailed documentation of fair lending review.

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[2] NCRC, *Foreclosure in the Nation's Capital: How Unfair and Reckless Lending Undermines Homeownership*. Paul S. Calem, Kevin Gillen, and Susan Wachter, *The Neighborhood Distribution of Subprime Mortgage Lending*, October 30, 2002. Available via pcalem@frb.gov. also Paul S. Calem, Jonathan E. Hershaff, and Susan M. Wachter, *Neighborhood Patterns of Subprime Lending: Evidence from Disparate Cities*, in Fannie Mae Foundation's Housing Policy Debate, Volume 15, Issue 3, 2004 pp. 603-622

4. The fair lending review must indicate whether the review found evidence of unsafe and unsound loans.[3]

We are vehemently opposed to exemptions from CRA review on merger applications or decreasing the frequency of CRA exams for institutions with outstanding ratings.

6. **We recommend enhancement of Small Business Lending Data**

Publicly available data, particularly the Home Mortgage Disclosure Act, has been vital for increasing responsible lending to traditionally underserved borrowers. DCRAC has previously called for enhancements to small business data to include the race and gender of the small business borrower.

DCRAC firmly believes that 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.

We also 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.

Sincerely,

Rashmi Rangan
Executive Director

cc. The National Community Reinvestment Coalition

1. Elizabeth Laderman and Carolina Reid, Federal Reserve Bank of San Francisco, "CRA Lending during the Subprime Meltdown in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act," a Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009, http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf
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[3] See FDIC CRA exam of CIT Bank of May 2008. The bank failed because it purchased high levels of problematic subprime and non-traditional loans. http://www2.fdic.gov/crapes/2008/35575_080512.PDF

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