

May 15, 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:

Havenwoods Economic Development Corporation (HEDC), a member of the National Community Reinvestment Coalition (NCRC), acknowledges that the proposed changes to the Interagency Question and Answer (Q&A) document would be modestly helpful but 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, Havenwoods EDC believes 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.

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. Also, there are often several bank branches in high income areas but a great lack of branches in our LMI areas of Milwaukee. If assessment areas are concentrated near bank branches, that will prevent the regulation of lending practices (or lack thereof) in LMI areas that historically have been hit with disparate lending practices. Not redefining the assessment areas only perpetuates this problem.

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.

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. In order to keep our communities strong, neither community development lending performance nor retail lending performance can compensate for the other. Institutions must be required to meet both performance levels separately. Without comprehensive community development that requires funding as well as continued focus on ensuring that LMI and minority families have access to increased quality of life through safe retail loans, our urban and rural lower income communities will not have access to the revitalization that is essential for the future of our cities, states that leads to greater national health.

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. A more rigorous service test which assesses data on bank deposits in addition to bank branches in low- and moderate-income communities is urgently needed. In addition, the existing Q&As regarding foreclosure prevention and loan modifications are not effectively stimulating large-scale foreclosure prevention activities. Home buying and home preservation education are essential and proven methods of stabilizing the real estate market. A drastic number of residents are not aware of their rights and resources available to them in relation to home loans and foreclosure prevention. Greater awareness of refinance and modification options as well as greater preparation for home ownership is a must. Home mortgage institutions need to play a stronger role in making this information available. Reforms to the CRA regulation boosting the importance of foreclosure prevention and servicing must be undertaken.

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.

Furthermore, the proposed changes to the Q&As do not address the need to expand HMDA data requirements in order to enable greater transparency and better regulation of institutions' lending practices. Without including factors such as credit score, underwriting ratios, appraised value, assets, etc., HMDA reporting as to reason for loan denial or FHA/VA loan origination is insufficient and often noted as "unknown." Without this additional data, disparate lending to minorities and LMI cannot be as readily identified, evidenced and regulated. HMDA reporting needs to be expanded to include additional pertinent factors to enable CRA regulation.

Three years after the summer 2010 hearings in which the agencies received hundreds of comments, Havenwoods EDC 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, HMDA data and the consideration of loan purchases on CRA exams. We urge prompt and comprehensive reform to the CRA regulations.

Sincerely,

Havenwoods Economic Development Corporation
Jessica Noth, Neighborhood Coordinator

cc. National Community Reinvestment Coalition