



May 17, 2013

OCC: Docket ID OCC-2013-0003

Federal Reserve: Docket No. OP-1456

FDIC: Attention: Comments on CRA Interagency Q&A

Re: Proposed Changes to Interagency Q&A

To Whom It May Concern:

Select Milwaukee, Inc., 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 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, Select Milwaukee believes that the agencies must implement bold and aggressive changes to the CRA regulation 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 would be broader changes to banks' assessment areas. 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. The agencies should designate additional assessment areas for counties and metropolitan areas like Greater Milwaukee 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 affirm any recent changes or would urge 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 does the first part of the proposed Q&A, the second part of the Q&A – that states 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. 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.

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 resulting in effective large-scale foreclosure prevention activities. Reforms to the CRA regulation boosting the importance of foreclosure prevention and servicing must be undertaken given the need for these services in the Milwaukee market and elsewhere.

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

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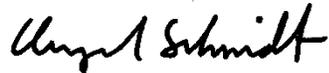
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loans made to these borrowers from other banks. Direct lending serves community needs to a significantly greater extent than purchasing high volumes of loans.

Existing Q&As warn banks against purchasing loans to “artificially inflate CRA performance.” But because this activity continues, the Q&A must be strengthened to state 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 and does not meaningfully increase access to credit. Purchasing loans made by a Community Development Financial Institution (CDFI) or other community-focused institutions is much different than indiscriminately purchasing loans from mainstream banks with secondary market outlets. CRA examiners must take these differences into account.

It has been three years since the summer 2010 hearings at which the agencies received hundreds of comments. Select Milwaukee is profoundly disappointed that the agencies are proposing half measures in the form of Q&As. Comprehensive reforms are urgently needed regarding assessment areas, the service test, foreclosure prevention, loan modifications and the consideration of loan purchases on CRA exams. We urge prompt and comprehensive reform to the CRA regulations from the agencies.

Sincerely,

A handwritten signature in black ink, appearing to read "Raymond Schmidt". The signature is written in a cursive, slightly slanted style.

Raymond Schmidt
Executive Director

cc National Community Reinvestment Coalition