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16 October 2001

Jennifer Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Docket No. R-1112/CRA Regulations Review

Dear Ms. Johnson:

This letter of comment is in response to Docket No. R-1112 regarding the review of Community Reinvestment Act (CRA) regulations. CRA has been and continues to be a critical factor in the economic improvement of low income, disadvantaged communities and communities of colour. Many community based organizations, ours included, have benefited from bank programs that were inspired and motivated by CRA activities but the banking world has changed dramatically of late and the CRA regulations need to keep current with those changes.

Consumer Action is a non-profit consumer education and advocacy organization serving consumers since 1971. We have had extensive experience in low income communities educating consumers in the areas of financial literacy, credit and budgeting skills and the information necessary to enter the home buying market as well. We have actively participated in CRA monitoring activities for many years in California. We hold a long-standing concern for the future of CRA regulations and believe that those very regulations remain vital as long as they are subject to ongoing review and updating which is responsive to changes in the banking industry itself.

Consumer Action continues to believe that lending should be the primary test applied although investments and services are also very important. We offer the following key changes in the regulations that we believe should be made:

- First, the investment test is a critical piece of CRA and should not be eliminated. The purchase of mortgage loans should only be considered under the investment test and not under the lending test.
- The fast-track consolidation of the industry requires that the bank-like subsidiaries of financial institutions be subject to review under CRA.
- Banks should not, under any circumstances, receive CRA credit for payday lending practices or check cashing operations as they are also predatory activities.

- The expansion of subprime lending by regulated financial institutions and their subsidiaries requires that examiners more carefully review subprime lending transactions for predatory activities and not include subprime lending in the same category as prime loans. This also means that investments in mortgage-backed securities that include subprime loans should not receive credit under CRA.

- With the advent of Internet banking and non-branch lending, geographic assessments need to be expanded to include all areas where significant lending, investment or deposit-taking occur. At the same time, brick and mortar branches provide critical access for low income people and should be rated highly.

We maintain that CRA needs to be strengthened and aligned with the needs of low income communities and communities of colour. In addition, examiners should visit community organizations in their examination process so that they may have a more complete understanding of the importance of community development to these communities.

We appreciate your consideration of these concerns regarding the CRA process and the regulations governing that process.

Sincerely,

Cher McIntyre
Director of Advocacy

Cc: Office of the Comptroller of the Currency
Office of Thrift Supervision
FDIC