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October 5, 2001

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**RE: DOCKET #S: FRB R-112 OCC 01-16**
**FDIC:COMMENTS/OES**
**OTS 2001-49**

Dear Madame Secretary Johnson and Regulatory Officials:

In reference to the above captioned matter, I want to thank the Board of Governors of the Federal Reserve System and the other regulators for the opportunity to comment on the Community Reinvestment Act (CRA) Advanced Notice of Proposed Rulemaking. My comments come from the perspective of a former U.S. Department of HUD Community Builder Fellow in Louisiana, a director of two nonprofit housing development corporations, a residential homebuilder and credit card collection supervisor for a national bank. In addition, from 1990-1996, I was vice president of community investment at the Federal Home Loan Bank (FHLBank) of Des Moines. It services the states of Iowa, Minnesota, Missouri, North Dakota and South Dakota.

There is consensus that the Community Reinvestment Act is the most important incentive financial institutions have to serve all segments of a community where they conduct business. The statement, that community activist Brenda LaBlanc, (FHLBank/Des Moines Affordable Housing Advisory Council Member, 1995) made in a meeting with Chairman Greenspan sums up the situation best, " *CRA is all consumers have to prompt discussions with lenders regarding the unmet credit needs of low and moderate income families and areas in their communities.*"

As a result of performance - based CRA evaluations, that were initiated by your agencies in 1993, we know that home loans to LMI(low and moderate income) borrowers and areas, by CRA - covered institutions and their affiliates, increased 39% which was more then twice the rate (17%) of growth of loans to MHI (moderate to high income) borrowers/areas between 1993-1998. (R. Litan, N. Retsinas,E. Belsky, S. White Haag. *The Community Reinvestment Act After Financial Modernization: A Baseline Report*. April, 2000. US Department of the Treasury). Also, community development real estate equity investments in rental housing for very low income households (such as IRS Section 42 low income housing tax credit projects) increased seven times as much in real dollars between 1993-1998 then they had in the previous 28 years under 'Part 24" authority, according to Barry Wides (OCC) and the report referenced above.

Below are specific examples on how performance based CRA evaluations have had an impact in historically underserved communities. Without evaluations that focused more on performance local financial institutions would not have become involved or would not have been as motivated to become involved in the following:

- Submitting an application, to the FHLB/Dallas to rehabilitate a 103 unit apartment building (a HUD 202 project exclusively for low income elderly and handicapped residents) whose sponsor is the U.S. Conference of Catholic Bishops. The financial institution was Red River Bank located in Alexandria, Louisiana. (2000)

- Entering into a partnership with a rural collaborative (seven predominantly minority towns and villages) which resulted in special down payment assistance funds being made available to low income borrowers. U.S. Senator John Breaux helped promote this partnership, that was attended by the president of the FHLBank/Dallas, at a press conference held by Hibernia National Bank in Alexandria, Louisiana. (1998)

- Providing technical assistance to an American Indian nonprofit mortgage company so 30 families could purchase FHA insured homes on six reservations in rural Minnesota. The Minnesota Chippewa Tribal Housing Corporation worked with a local financial institution whose help enabled it to become the first such organization able to borrow directly from a FHLBank since their inception in 1932. The partnership was recognized with U.S. Department of Treasury "Clinton Medals" through the Federal Housing Finance Board. (1995)

- Participating in the Rural Home Loan Partnership through the Local Initiatives Support Corporation (LISC) and the U.S. Department of Agriculture with support from the Federal Housing Finance Board/Federal Home Loan Bank System. These activities were recognized by U.S. Senators Tom Harkin, Charles Grassley and Christopher Bond and former FHFB Chair Morrison at local functions and at a press conference LISC held at the U.S. Capitol.(1995).

- Sponsoring an application for statewide downpayment assistance grants so more first time homebuyers throughout the State of Missouri would qualify. U.S. Senator Christopher Bond helped promote this project, in Jefferson City, Missouri through a consortium of thrift institutions. His participation was featured in a National Mortgage News article. (1994)

- Facilitating an International Habitat for Humanity $300,000 AHP grant to help former President Jimmy Carter build 30 homes on an American Indian Reservation in South Dakota. Former Congressman and now U.S. Senator Tim Johnson participated in a celebration before 1400 volunteers, from all over the world, caravanned to this remote site and constructed the homes. Home Federal Savings Bank disbursed the funds through the local Habitat for Humanity in Sioux Falls, South Dakota (1993).

However, along with these successes and the passage of the financial modernization legislation some issues have arisen that require regulatory refinements to provide examiners with avenues to adequately assess the totality of an institution's activities. To do so, it is necessary to preserve, strengthen and expand the existing regulations since the performance based measures instituted are clearly working.

Attached are detailed comments from the National Community Reinvestment Coalition (NCRC) and the Woodstock Institute. They have identified the issues that are causing concern and propose workable solutions to better assess institution's performance and to ferret out illegal practices (predatory lending). I support their positions and know you will address each to the extent possible. Below are a few comments I would like to add :

(1.) ***CRA Ratings:*** Considering that, in 2000, 97.5% of the CRA covered financial institutions received a satisfactory or outstanding rating (*Inside Mortgage Finance Publication, Inc.*) it would seem that if there were six ratings available to examiners an institution's activities could be more accurately reflected in their exams. Perhaps if there were a low satisfactory and a high satisfactory rating there would not be such an irregular rating distribution and constructive measures could be employed to help institutions proactively meet community credit needs (i.e. participation in Federal Housing Finance Board (FHFB)/FHLBank Community Investment Cash Advance programs, Affordable Housing (AHP) and Community Investment programs (CIP), etc.).

(2.) ***Concurrent exams*** - Even though prime lending still accounts for nine out of ten home purchase and refinance loans originated in the United States we are seeing some troubling trends. Between 1993 and 1999, subprime lending surged from just 1% to 19% of home refinance loans and to 6% of home purchase loans. In 1999, subprime refinancings were especially common in predominately minority neighborhoods and among low income blacks and women (Joint Center for Housing Studies of Harvard University. *The State of the Nation's Housing 2001*. Graduate School of Design. John F. Kennedy School of Government.). If compliance with fair lending laws, anti-predatory rules and disparate impact lending issues are to be enforced simultaneous safety/soundness exams and CRA exams would be the most effective enforcement mechanism to achieve this objective.

(3.) ***Assessment areas*** - In NCRC's comments they state that Harvard University recently concluded that banks make a higher percentage of prime loans to LMI communities in their assessment areas then to those not in their assessment areas. This tells us the incidence of questionable subprime lending could be better monitored if institutions are required to include all affiliates' residential, consumer and small business lending. Additionally, better monitoring would be possible if institutions were required to delineate their assessment areas by where they take a significant portion of their deposits or make a significant portion of loans as defined on pages nine and ten of the Woodstock Institute's comments.

(4.) ***Collaborate with the FHFB/FHLBank System to enhance data reporting requirements*** - Collaborating with this group could yield a number of easy ways for institutions to report CRA eligible activities. One example would be for OCC to define "special debt investments" under Part 24 authority (see attached OCC/OMB form #1557-0194) to include use of Community Investment Cash Advances under the FHFB Community Support Requirements (see sample), CIP mortgage-matched advances for commercial and small business lending and AHP direct subsidies and subsidized advances for affordable housing. Barry Wides, at the Office of Comptroller of the Currency indicated that currently there is not a definition of what constitutes the "special debt investments" category listed on page three of the OMB form. Institutions do carry limited contingent liability on the programs mentioned above and required reporting would provide an opportunity to highlight and track the growth of participation in these programs. Also, if data on fees and interest rates were required fields on LARs (loan application registers) it would be easier for examiners to flag potential problems and to recognize outstanding performance.

As stated in the comments by the Woodstock Institute, the explosion of predatory lending, the continued evidence of discrimination and redlining in both mortgage and small business lending markets, and the growth of the payday lending industry all point to the need for expanded CRA regulation of mainstream lending products. Also, with the integration of the banking, insurance , and securities industries we must take care to ensure that since companies are reaping the benefits provided by financial modernization that consumers, all consumers, should reap the benefits of enhanced competition. As former President Clinton said, " *We must remain watchful to ensure that as we modernize our financial system it works for ALL Americans"(emphasis added).* Thank you again for the opportunity to comment and please contact me if you have any questions or would like additional information.

Sincerely,

Nancy Grandquist Fields

Enclosures

Cc: Nicolas P. Retsinas, Director, Joint Center for Housing Studies, Harvard University