October 15, 2001

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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G St. NW
Washington DC 20552
Attention: Docket No. 2001-49

To whom it may concern:

The Southeast Chicago Development Commission believes that the Community Reinvestment Act (CRA) has been instrumental in increasing lending and investing to our members' communities and many others around the country. The regulatory changes to CRA during 1995 strengthened the law by emphasizing a bank's performance in providing services and in making loans and investments. The results of the positive changes to the CRA regulation in 1995 have been significant.

Here in our neighborhood, the far Southeast Side of Chicago, financial institutions from throughout the City and based in our community have become partners with a number of organizations, including our own. Much of the new development, including the expansion of bank facilities have been possible because of bankers' commitment to this community.

As a member of the Chicago Association of Neighborhood Development Organizations (CANDO), and from our extensive experience, we offer the following recommendations to improve CRA:

1) Small business data must include information on the race, gender, and specific revenue size of the borrower and the specific census tract location of the business. Small business renewals are important, but should be separated from new originations.

2) The current definition of "community development" is too broad. Business development activities should meet the following criteria to be considered as "community development":
- affected firms are women- or minority-owned or small businesses located in low- or moderate-income areas; and
- the activity of the firm is not deleterious to the community (e.g., payday loan stores, liquor stores).

3) The CRA procedures for delineating assessment areas need to be changed if CRA is to adequately capture the activities of banks in the rapidly evolving financial marketplace. CRA regulations must specify that a bank's CRA exam will include communities in which a significant portion of a bank's loans are made. Out-of-state small business lenders are creaming loan applicants, without being examined on their failure to address business financing needs in low- and moderate-income areas of

Chicago.

4) We opposes the elimination of the investment test since low- and moderate-income communities continue to experience a shortage of equity investments for small business and other pressing economic development needs. The investment test has been instrumental in the growth of Community Development Financial Institutions [CDFIs], including CANDO's Self Employment Loan Fund. Grants from banks have provided critical operating support for our organization.

Exams should distinguish between different types of investment activity, between lower- and higher-risk investments, and between higher-return and lower-return investments. Investments in mortgage- and asset-backed securities should be reviewed for predatory or illegal lending practices, and banks involved in such practices should be downgraded.

5) CRA exams must rigorously and carefully evaluate subprime lending. CRA exams must be conducted concurrently with fair lending and safety and soundness exams to ensure that lending is conducted in a non-discriminatory and non-abusive manner that is safe for the institution as well as the borrower. Lenders should be encouraged to make as many prime loans as possible since prime loans are more affordable for minority and low- and moderate-income borrowers. Significant research concludes that too many creditworthy borrowers are receiving over-priced and discriminatory subprime loans. CRA exams must provide an incentive to increase prime lending. Lenders that make both prime and subprime loans should not pass their CRA exams unless they pass the prime part of their exams.

6) The service test must be enhanced by data disclosure regarding the number of checking and savings accounts by income and minority level of bank customer and census tract. Payday lending is abusive and must not count on CRA exams. The service test must award the most points to banks that provide a high number of affordable services to residents of low- and moderate-income communities.

7) The emphasis on quantitative criteria must remain in CRA exams. If the bank's "qualitative" or "innovative" programs produce a significant number of loans, investments, and services, the bank will perform well on the quantitative criteria. Banks must not receive an inordinate amount of credit for an "innovative" program or practice that does not produce much in terms of volume.

8) The CRA regulation now allows banks to choose whether the lending, investing, or service activities of their affiliates will be considered on CRA exams. We strongly urge the regulatory agencies to mandate that all lending and banking activities of non-depository affiliates must be included on CRA exams.

9) Low and high satisfactory ratings should be used for overall ratings as well as ratings for the lending, investment, and service test of the large bank exam. Banks should be required to submit improvement plans subject to a public comment period, if

they have ratings of low satisfactory or below. Currently, banks are only required to submit improvement plans to their public file if they fail CRA exams.

Updating the CRA regulation must produce CRA exams that are rigorous, performance-based, more consistent, and that are able to better capture the lending, investment and service activity of rapidly changing banks. These recommendations will lead to enhanced enforcement of CRA.

This review of the CRA regulations is so vital that we urge the regulatory agencies to hold hearings around the country when they propose specific changes to the CRA regulation. It is vital that the federal banking agencies hear the diverse voices of America's communities as they consider a regulation that ensures that community credit needs are being met.

We also support the detailed comment letter of the National Community Reinvestment *Coalition and urge you to accept their recommendations.*

Thank you for your consideration.

Sincerely,

Lynne M. Cunningham
President and Chief Executive Officer