



CITY-COUNTY REINVESTMENT TASK FORCE



Jim Bliesner • Reinvestment Director

October 8, 2001

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Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551
RE: Docket No. R-1112

Docket No. 01-16
Communications Division
Public Information Room
Mail stop 1-5
Office of the Comptroller of the Currency
250 E St. SW
Washington DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/OES
Federal Deposit Insurance Corporation
550 17th St. NW
Washington DC 20429
No docket number needed

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 San Diego City-County Reinvestment Task Force (RTF) was created in 1977 to monitor lending practices and to develop strategies for reinvestment in the San Diego region. Established by joint resolution of the City Council and the County Board of Supervisors, the activities of the RTF and the respective policies are actually local applications of the federal Community Reinvestment Act of 1977 (CRA). Its appointed membership includes lenders, community organizations involved in housing and community development, and public representatives.

The CRA has been instrumental in increasing lending and investing to San Diego County. The RTF has developed San Diego specific reinvestment plans with ten of the largest lenders in the county and annually requests data from lenders who have developed regarding their level of activity under the specified categories. Total dollars committed for CRA activity of participating FDIC-insured lenders in the San Diego region approximated \$1.324 billion in 1999.

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. The Treasury Department's study on CRA found that lending to low- and moderate-income communities is higher in communities in which banks have their CRA assessment areas than in communities in which banks are not examined under CRA.

To preserve the progress in community reinvestment, the federal banking agencies must update CRA to take into account the revolutionary changes in the financial industry. The Gramm-Leach-Bliley Act of 1999 allowed mergers among banks, insurance companies, and securities firms. Banks and thrifts with insurance company affiliates are now aggressively training insurance brokers to make loans. Securities affiliates of banks offer mutual funds with checking accounts. Mortgage company affiliates of banks continue to make a significant portion of the total loans, often issuing more than half of a bank's loans.

The CRA regulation now allows banks to choose whether the lending, investing, or service activities of their affiliates will be considered on CRA exams. *The RTF strongly urges the regulatory agencies to mandate that all lending and banking activities of non-depository affiliates must be included on CRA exams.* Allowing affiliates to be invisible has been a primary cause of predatory lending. This change would most accurately assess the CRA performance of banks that are spreading their lending activity to all parts of their company, including mortgage brokers, insurance agents, and other non-traditional loan officers. Ending the optional treatment of affiliates also stops the manipulation of CRA exams and makes exams more consistent in their scope. Currently, banks can elect not to include affiliates on CRA exams if they make predatory loans or if they make loans primarily to affluent customers.

The CRA procedures for delineating assessment areas should be changed. How is it possible to enforce the CRA and assess geographical distribution of bank services and loans when banks are increasingly using brokers and other non-branch platforms. As a result, CRA exams of large, non-traditional banks scrutinize a tiny fraction of bank lending. This directly contradicts the CRA statute's purpose of ensuring that credit needs in all the communities in which a bank is chartered are met. The RTF believes that the CRA regulations must specify that a bank's CRA exam will include communities in which a great majority of a bank's loans are made.

The RTF supports the idea that CRA exams should rigorously and carefully evaluate subprime lending. The CRA statute clearly states that lenders have an affirmative obligation to serve communities in a safe and sound manner. CRA exams should 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. The RTF applauds a recent change to the "Interagency Question and Answer" document stating

that lenders will be penalized for making loans that violate federal anti-predatory statutes and recommends that this Question and Answer become part of the CRA regulation.

The RTF supports the emphasis on "prime" loans versus sub-prime lending. Prime loans are often 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.

The RTF 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 criteria to qualify for streamlined exams also should not be lessened. The present CRA exams are reasonable and are not burdensome for banks and allowing more banks to qualify for streamlined exams will simply weaken CRA enforcement.

We urge the regulatory agencies to adopt these additional policies:

Loan originations, by a bank, should have higher value in the CRA evaluation process, than wholesale home loan purchases. The lending test should receive primary emphasis because redlining and "reverse" redlining, or predatory lending, remain serious problems in working class and minority neighborhoods.

The emphasis on quantitative criteria should 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. We support innovation by lenders in CRA activity but not as an alternative to quantitative performance.

The Federal Reserve Board should enact its proposed HMDA reform to include information on interest rates and fees.

The CRA small business data should include information on the race, gender, and specific revenue size of the borrower and the specific census tract location of the business.

The service test should 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 cost of services must be a factor on CRA exams since high fee services do not meet "deposit" needs and strip consumers of their wealth and savings. 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.

Low and high satisfactory ratings should be possible 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

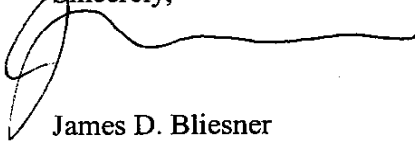
below. Currently, banks are only required to submit improvement plans to their public file if they fail CRA exams.

The Gramm-Leach-Bliley Act of 1999 prohibited banks with failing CRA ratings from expanding into the insurance and securities business. *This provision of the statute should apply to the bank acquiring another institution as well as a bank being acquired.* The Federal Reserve Board's interpretation of this provision allows a bank failing its CRA exam to be acquired by another institution. Under the Board's interpretation, a bank has little incentive to abide by CRA obligations if their chief executives and board are contemplating a sale of their bank.

The RTF suggests that there is a unique opportunity for the regulatory agencies to solicit responsible and constructive in-put by holding public hearings on the proposed new rules. The use of the public forum allows the possibility for education of the public and the lenders. It encourages overall awareness of the benefits and proven impact of the CRA. Finally, it provides an opportunity for dialogue between regulators lenders and the community organizations. This type of dialogue can be very beneficial in the implementation of the new rules.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "James D. Bliesner", with a long horizontal flourish extending to the right.

James D. Bliesner