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October 17, 2001

Docket No. 2001-49
Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G. Street, NW
Washington, DC 20551

Dear Sirs,

This letter is in response to Docket No. 2001-49 regarding the review of Community Reinvestment Act (CRA) regulations. CRA has been critical to the economic improvement of underserved communities in California, including low-income communities and communities of color. Our organization, Los Angeles Neighborhood Housing Services (LA NHS), has benefited from bank programs that were motivated by CRA, but banking has changed substantially and the regulations need to keep pace.

To enable us to accomplish our community development goals, LA NHS has formed partnerships with numerous financial institutions in the banking industry that are Federally regulated. Since 1984, LA NHS has served over 1.25 million families, developed and rehabilitated over 5,000 housing and commercial units, established 131 block clubs, educated and counseled over 50,000 home buyers, and employed over 200 neighborhood youth, investing more than \$1 billion back into some of Los Angeles' toughest neighborhoods. LA NHS is the largest provider of affordable homeownership education in Southern California, putting 15 families per day on the road to homeownership.

As a consequence, LA NHS is very familiar with the regulatory process that governs CRA-related activities. LA NHS supports maintaining the integrity of all three tests. While lending should be the primary test, investments and services are also very important. No one test will provide enough incentive to banks to offer all the different types of services, including loans, equity investments, and banking services, which are needed in low-income communities. In addition, we suggest that the following key changes in the regulations should be made:

- The agencies should resist broadening the definition and measurements of community development activity. Under the current regulations, "community development" means affordable housing (including multifamily rental housing) for low- or moderate-income (LMI) individuals, community services targeted to LMI individuals, activities that promote economic development by financing small businesses and farms, and activities that revitalize or stabilize LMI geographies.

- The expansion of subprime lending by regulated financial institutions and their subsidiaries requires that examiners more carefully review subprime lending 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.
- Banks should not get CRA credit for payday lending or check cashing, as these are also predatory activities.
- The purchase of mortgage loans should only be considered under the investment test, not the lending test.
- The consolidation of the industry requires that the bank-like subsidiaries of financial institutions be reviewed under CRA.
- The advent of Internet banking and non-branch lending mean that the geographic assessment needs 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.
- Another aspect of determining assessment areas needs to be reviewed. An inequitable situation can arise when a bank determines its assessment area but, because of that determination, cannot receive credit for all of the CRA-related work it is doing. For example, if the bank is working throughout California with non-profit organizations and other agencies to make community development loans, then California should be considered the assessment area for which the bank receives CRA credit, and not just the local "assessment area" that has been determined for CRA purposes. A change like this would acknowledge all community development work that the bank is performing.
- HMDA-type data analysis of small business lending would be helpful so that there can be assessment of whether small businesses are being fairly served.

CRA needs to be strengthened and aligned with the needs of underserved communities, including low-income communities and communities of color. In addition, examiners should visit community organizations in their examination process so that they obtain a better understanding community development and its importance.

Thank you for the opportunity to comment and to express our concerns.

Sincerely yours,

Lori R. Gay
President

LRG/jlb

Bcc to: NNHN
CRC