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October 4, 2001

Mr. Robert E. Feldman
Secretary
Board of Governors of the Federal Reserve System
Washington, DC 20551

Re: Docket No. R-1112

Dear Ms. Johnson;

Bay Mills Housing Authority believes that the Community Reinvestment Act (CRA) has been instrumental in increasing lending and investing to our community and many others around the country. The federal banking agencies must now update the CRA regulations in order to further reinvestment in low- and moderate- income communities as well as underserved minority communities, **particularly to Native American communities.**

The Department of Treasury'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.

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. The change would more 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 also need to be changed if CRA is to adequately capture the activities of banks in the rapidly evolving financial marketplace. Presently, CRA exams scrutinize a bank's performance in geographical areas where a bank has branches and deposit-taking ATMs. Banks are increasingly using brokers and other non-branch platforms to make loans. 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. Bay Mills Housing Authority believes that the CRA regulation must specify that a bank's CRA exam will include communities in which a great majority of a bank's loans are made.

If CRA exams hope to keep pace with the changes in lending activity, Bay Mills Housing Authority strongly believes that CRA exams must 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 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. Bay Mills Housing Authority applauds a recent change to the "Interagency Questions and Answer" document stating that lenders will be penalized for making loans that violate federal anti-predatory statutes. This Question and Answer must become part of the CRA regulation.

We believe that 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. Bay Mills Housing Authority proposes that

lenders that make both prime and subprime loans will not pass their CRA exams unless they pass the prime part of their exams.

The CRA regulations must be changed so that minorities are explicitly considered on the lending test just like low- and moderate-income borrowers. Considerable research has revealed the domination of subprime lenders in refinance and home equity lending in minority communities. This lopsided market confronts minorities with few alternatives to high cost refinance lending. If minorities were an explicit part of the lending test, CRA exams would stimulate more prime lending in communities of color.

Segments of the banking industry will seek to weaken the CRA regulations and examinations. We oppose 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 present CRA exams are reasonable and are not burdensome for banks. Allowing more banks to qualify for streamlined exams will simply weaken CRA enforcement. We urge the regulatory agencies to adopt these additional polices:

- Purchase of loans must not count as much as loan origination's on CRA exams since making loans is the more difficult task. The lending test must 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 must remain in CRA exams. If the bank's "qualitative" or "innovative" programs produce a significant number of loans, investment, 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
- The Federal Reserve Board must enact its proposed HMDA reform to include information on interest rates and fees so that subprime lending can be assessed on CRA exams. **We also request that for Native American loans, banks detail loans made in Indian areas, rural versus urban areas.** The CRA 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.

This review of the CRA regulations is so vital that we urge the regulatory agencies to hold hearings around the county 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, including **Native Americans**, as they consider a regulation that ensures that community credit needs are being met.

Thank you for your consideration.

Sincerely,

Cheryl A. Parish