

**Additional and Timely Comments from the
Community Reinvestment Association of North Carolina in regards to reform
of the Community Reinvestment Act.**

OTS ID OTS 2010-0019

The Community Reinvestment Association of North Carolina (CRA-NC) is a non-profit advocacy agency that has worked for more than twenty years on promoting community reinvestment for underserved communities.

We recently interviewed community development corporations in rural counties and small MSA areas. The primary concern they have is the lack of community development partnerships for grants, loans, services and investments by banks. Regional branches of big banks consistently direct these groups to corporate headquarters for CRA-related activities.

CRA-NC argues that the lack of community development activities is a result of the exam procedures, which focus performance evaluation on large Metropolitan Statistical Areas (MSAs). Lenders seeking to earn an outstanding rating focus their efforts on MSAs that are likely to be considered in the full scope evaluation. CRA activities outside of MSA areas are not considered as fully in the exam process and therefore are not given priority by lenders.

We believe that one of the primary purposes of the Community Reinvestment Act is to ensure that underserved communities receive banking services. The intent and effect is to assure a geographical evenness of bank services. The exam procedure should de-emphasize the current MSA full scope review and consider performance to the broader assessment area. Lenders respond to bank examinations in designing and implementing their CRA program. The regulatory process should not incent a concentration of services in select MSAs at the expense of broader market access to capital and services.

We make the following recommended changes to the CRA examination procedures for large lenders to address this and other concerns.

Community Development Test

The structure of evaluating a lender's community development lending, investments and services also contributes to the dynamic of rural and small MSAs not receiving bank community development resources. The lack of standard definitions of community development loans and a code to designate qualified loans contributes to exam procedures that make it difficult and costly to evaluate performance within and across all assessment areas. The lack of a separate community development test makes evaluation of how well lenders meet this community need subordinate to other exam criteria as well as subjective to agency and regulator discretion. This leads to inconsistency in what is considered qualified community development activities in the exam process.

To address these concerns, CRA-NC recommends

- A separate community development test for large lenders.
- The community development test should replace the category of the Investment Test with the same weighting of 25%.
- Community development components of the existing lending and service tests would be consolidated into the community development test.
- The test should evaluate the quality and quantity of loans, investments and services that promote affordable housing, economic development and neighborhood revitalization.
- Community development loans must have a standard definition that can be coded by frontline lending officers. This coding is critical to reducing the documentation expense lenders currently incur on community development loans by providing standards that can be automated.
- A classification system should have types of community development loans to identify the purposes affordable housing, economic development or neighborhood revitalization.
- Community development data must be reported in a format that can be disaggregated for evaluation across geography. The data should allow for like comparison among lenders.
- The test should evaluate and provide credit for bank partnerships and community leadership should be considered in regional involvement.
- Large lenders should receive credit for investing in community development intermediaries as they can promote community development activities not provided by smaller agencies or in those areas where nonprofit or government capacity for partnerships is low.
- Partnerships with intermediaries cannot be a substitute for responsiveness to regional opportunities for loans, investments and services. Responsiveness to local community development efforts is an essential component to the overarching mission of the Community Reinvestment Act the proposed test community development performance.

Service Test

CRA-NC recommends the following changes to the service test.

- An analysis of the number of LMI clients utilizing deposit services as measured in context of competing banks and area need. This can be done by collecting income data and geo-coding consumer addresses to look at market penetration by households and geography. This change will provide a more measurable and standard evaluation of performance in services. This metric allows a lender to be evaluated for services provided by electronic and mobile banking services as well as through branch locations. Affordable, fair deposit services are a critical

- component of bank services to LMI households and communities. We recommend that this indicator be weighted at 40% of the service test.
- An analysis of bank branch locations for inclusive service of all communities in the lender's assessment area. Branches are essential to the provision of services particularly for those populations not utilizing electronic access. We recommend that this aspect of the service test be weighted at 40%.
 - An analysis small consumer loan products (unsecured and under \$500) lent to LMI households and communities. Small consumer loan products are a strong demand of LMI households and communities. The service test should evaluate lenders on their product offerings for fairness and affordability and usage. We do not support an evaluation of all consumer lending. We recommend this small consumer lending product be weighted at 20%.
 - Historically the service test had 20% weighted for community development services including technical assistance, capacity building, and housing counseling funding. We recommend that these community development services be moved to the proposed community development test and not be included in the service test. The current evaluation structure under weights these activities. These are best considered in the context of the bank's overall community development program.

Lending Test

CRA exams should utilize HMDA and CRA data to look at the performance of lenders under the lending test to determine how well the lender serves its entire assessment areas. The analysis of data should look at market penetration for race, income and geography in absolute terms and in comparison as a percentage to other lenders in the market. This analysis shows which areas lenders are doing well and in which local areas they may need to improve. In aggregate a lender may do a significant volume of lending because of size, but may do little in each individual market relative to the demand or competition. This analysis allows for an evaluation of evenness across the markets in how well it serves minority and LMI households and communities. CRA-NC has submitted substantive comment on reforms needed in data collection. The essence of this recommendation is that it be utilized to efficiently and effectively measure CRA performance across populations and geography.

CRA Grade Inflation

CRA-NC is concerned about a dilution of the Community Reinvestment Act when CRA exams give CRA credit for investments or loans where it is not merited.

As an example, the Senior Housing Crime Prevention Foundation solicits investments or loans from lenders, which are used to secure government grade bonds. The bank receives the interest on par with the note or investment minus a 100 basis point fee. The principle is returned in seven years. The Foundation takes the 100 basis points of which a small percentage is used to provide crime prevention education to senior citizens in retirement homes in the bank assessment area. While the community service component may qualify for CRA credit, regulators are granting full CRA credit to the bond or investment. For essentially a 100 basis point contribution, the bank receives CRA credit for say a million dollar bond. This inflates the CRA grade. Investments and bonds should be employed for community development projects. The SHCPF program should receive CRA credit only for the philanthropy of the amount actually credited for direct services.

Another example of unmerited CRA credit is where lenders purchase CRA qualified loans from another lender purely for CRA credit. There are no new loans made to LMI households. There is not value added for liquidity purposes to increase lending. The portfolio is sold repeatedly for the purpose of earning CRA credit. At this point, CRA has become a regulatory game creating costs for lenders without benefit to the community.

CRA-NC recommends a benefits test to determine whether loans and investments produce benefits for the community and what percentage of the loan and investment should qualify credit.

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