MASSACHUSETTS
AFFORDABLE
HOUSING
ALLIANCE

August 31, 2010

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Ms. Johnson,

On behalf of the Massachusetts Affordable Housing Alliance, we thank you for the opportunity to submit testimony on the regulations governing procedures for assessing a financial institution's performance under the Community Reinvestment Act.

Geographic coverage – We strongly encourage federal regulators to move immediately to redefine "assessment areas" that determine where a bank has CRA responsibilities. Assessment areas are currently determined by where a bank has deposit–taking branches. In the past this signified the geographic footprint where a bank conducted business, but today, it is more and more common for a bank such as Wells Fargo to have a significant presence in a state like Massachusetts where it has no deposit-taking branches. Instead, Wells Fargo makes loans, staffs "offices", seeks customers, and competes mostly with banks that have CRA responsibilities here. In fact, 8 of the top 15 mortgage lenders in Massachusetts in 2007 at the peak of the subprime lending crisis were out-of-state banks not covered by CRA for their lending activity here.

Research, both here in Massachusetts and nationally, has consistently shown that banks lending outside their CRA assessment areas make fewer "good" loans (and often more higher-cost loans) to low and moderate income consumers and neighborhoods than they do inside those assessment areas. Federal regulators could correct this inequity and redefine assessment area to include any metropolitan area where a bank and its subsidiaries conduct significant business (i.e. where a bank has a mortgage lending market share of 0.5% or more). With this change, regulators would be required to examine banks for CRA purposes in areas where they have branches, as is the case now, and in other geographies where they have a significant lending or other business presence.

Affiliate activities – We encourage federal regulators to routinely require the activities of all affiliate institutions be examined in regard to CRA. Currently, federal regulators allow a bank – at its own option – to have the activities of an affiliate to be evaluated under CRA. This loophole should be closed and the activities of affiliates should be a mandatory part of the CRA examination ensuring that a bank will not be able to "hide" bad loans outside the scope of CRA. Lending activities, especially, should be scrutinized with particular attention to institutions that have affiliates that specialize in certain types of lending – such as subprime loans, payday loans, or other activities that seek to target low and moderate income communities and individuals. Of course, the overall quality and sustainability of these loans should be examined and a lending institution should NOT receive CRA credit for just the mere volume of lending in certain communities regardless of the credit quality of those loans.

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Ratings and incentives – We encourage the federal regulators to establish a rating system with five tiers – outstanding, high satisfactory, low satisfactory, needs to improve, and substantial non-compliance or alternatively, A, B, C, D and F. Just this week, the Environmental Protection Agency and the U.S. Department of Transportation jointly released a proposal to issue letter grades for each new passenger vehicle based on fuel efficiency and emissions. These letter grades, applied to bank CRA ratings, would help consumers easily determine which banks are meeting neighborhood credit needs. Massachusetts has had five ratings since changes to our state CRA were made in 1996. There has been no adverse impact upon financial institutions because of the change and it has been helpful to consumers and community organizations to better differentiate between the performance of banks and credit unions active in our state.

We believe that federal regulators can do more to encourage productive agreements between banks and community organizations. We recommend that federal regulators allow for positive CRA consideration during merger applications for banks that enter into verifiable agreements with established community-based organizations. This stops well-short of mandating CRA agreements but would provide appropriate incentives for banks and community organizations to collaborate on meeting community credit needs.

MAHA also believes that the timeline between CRA examinations have grown considerably over the year and should be shortened, particularly for large banks, in the regulations. Given rapid changes in the financial services world, a 4-5 year period between exams is too long. This is particularly true for large banks where only a subset of metropolitan areas are evaluated in any one examination.

CRA disclosures and Performance Evaluations – The agencies should consider an annual joint release of all CRA evaluations in a "report card" format that reviews how many examinations have been completed and the percentage of ratings in each category and compares trends over time. Performance evaluations should include information from public comments or specific community contacts. It has been our observation that federal regulators reach out to community organizations in preparation for a CRA examination much less frequently than they did in past years. The regulations should make it clear that regular contact with local community organizations is a necessary ingredient for a full and complete CRA evaluation.

Sincerely,

Thomas Callahan
Executive Director