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To: Office of the Comptroller of the Currency
Federal Reserve System
Federal Deposit Insurance Corporation
Office of Thrift Supervision

From: Jonathan Brereton, CELO, ACCION Chicago

Date: Aug. 31, 2010

RE: Community Reinvestment Act Regulation Hearings

To Whom It May Concern:

ACCION Chicago ("ACCION), a member of the US ACCION Network, respectfully submits the following comments to the OCC, FDIC, Board, and OTS as regards the agencies' stated goal to receive a wide range of public comments concerning revisions to the regulations of CRA in order to better serve the legislation's intended goals. These comments specifically reference Docket ID OCC-2010-0011, Docket No. R-1386, RIN 3064-AD60, and Docket ID OTS-2010-0019.

The US ACCION Network is the largest affiliate group of CDFI certified microlenders in the United States. Offices include: Chicago, USA, Texas/Louisiana, New Mexico/Arizona/Colorado, and San Diego. The network of five U.S. ACCION affiliates has worked over the last two decades to build effective and dynamic lending institutions able to serve a diverse population of "underbanked" clients in distinct economic regions. Today, ACCION affiliates represent the majority of microlending in the United States, having disbursed just under 40,000 loans and more than $250 million. In the 12 states ACCION offices work in directly, and the 38 states served by a proprietary internet lending platform, the ACCION name is synonymous with leadership and excellence in microlending.

ACCION Chicago has benefited from broad and deep partnerships with banks across Chicago. While many of these partnerships exist because of natural and philanthropic ties, they are also a result of CRA motivated institutions. ACCION receives hundreds of thousands of dollars in operating and loan capital support every year as a result of our relationships with financial institutions. Not only do these financial institutions provide valuable capital support, they also lend executives to our boards of directors, helping us to better manage the complex risks associated with large portfolios of "underbanked" small business owners. Although we would undoubtedly still exist without CRA, we would not exist on the size and scale we have currently achieved.

Working with financial institutions in the Chicago area has allowed us to extend the reach of our work. Our clients are a majority low-to-moderate income and ethnic minorities. The effect of our impact serves to increase economic growth and employment for neighborhoods and entire communities, small businesses being the primary source of new employment in all markets.

From our clients, we thank you for your work to implement CRA in such a way that allows CDFI microlenders to serve more entrepreneurs. We offer the following comments as suggested improvements to the current regulatory directions as well as to address proposed changes that have been discussed at

recent CRA Public Hearings. We do not seek to offer a comprehensive reaction to CRA. Our comments address specific changes that will be to the distinct benefit of our clients in Chicago and the work of all microlenders.

Geographic Scope

While the majority of ACCION's operations are tied to locations with extensive physical bank presences, we recognize that a growing number of our possible constituents are working with internet bank operations. We support the extension of CRA assessment areas for banks that have a significant market share in a geographic area but no physical office. We recognize that internet banking represents increased opportunity for many of our clients and think an expansion of CRA assessment areas for these banks would create productive partnerships to benefit entrepreneurs. As such, we would leave it to the discretion of the regulators to expand assessment; reminding them that increased regulation also has the potential to stifle for-profit innovation that could increase banking access for our clients.

CDFI Microlenders

At multiple public hearings, representatives of the broader CDFI industry have provided extensive testimony. In general, we fully agree with the comments of the National Community Reinvestment Coalition, the Opportunity Finance Network, and the CDFI Coalition. However, we would like to point out that simply addressing the expressed need for greater collaboration with CDFIs fails to recognize the unique place of microlenders as CDFIs. For instance, although the US ACCION Network represents the majority of microlending in the United States, our individual affiliate offices range from small to medium CDFIs when compared to the entire industry. The result of this disparity has often made it harder for microlenders to receive the capitalization and visibility needed in order to best support their mission. For instance, bank funds supposedly made available for all CDFI's or even funds for small business development, often remain off limits to microlenders because of the conditions set by the bank, conditions which are geared towards larger or more established CDFIs.

Thus, we agree with changes to CDFI regulatory enforcement that will better reward collaboration with CDFIs, such as viewing investments in CDFIs similarly to that of women- and minority-owned banks and thrifts, but we would ask that work with microlenders be specifically recognized. Our investment needs are often smaller and yet still require a significant amount of time to complete, creating disincentives for large financial institutions to complete the deals. As our field is still realizing its nascent potential, any increased incentive to support our work would go far in helping to develop our organizations and furthering our impact.

Small Business Lending

Due to the current constraints to acquiring credit that many small businesses face, the suggestion has been made by other organizations to expand the definition of CRA qualified activities to include certain small business loans by banks. We are in general agreement with such changes. However, we worry that the result would simply reward an activity banks already do instead of increasing small business lending to struggling or "underbanked" entrepreneurs. Additionally, financial institutions may have less incentive to invest in microlenders as they will receive credit for supporting small businesses from another source.

Executive Support

ACCION has relied heavily on the expertise of numerous financial institutions in Chicago. Executives experienced with small business lending and credit decisions have been integral to the operating of our lending and portfolio management. The quantitative focus of current CRA enforcement fails to properly

reward these activities. Financial institutions should be afforded additional opportunities to comment on their volunteering of expertise, and regulators should be highly encouraged to contact the partners mentioned, such as ACCION, to better assess the impact of the expertise provided. These changes would reward the important aid many banks already provide, encourage banks to place active and engaged Board members and volunteers at CDFI partners, and give community organizations greater input in the CRA review process.

Investments

As mentioned, creating investments, whether grants, loans, or purchasing of loans, can be complicated and time consuming per the size of investment in microlenders. Financial institutions should not only be rewarded for the number and size of investments, but also the complexity, time spent, and overall organizational impact. The last of these changes should also account for the term of the investment and how well tailored the investment structure is to the operational needs of the organization. We believe these changes would benefit all CDFIs but have a proportionally greater positive impact on microlenders.

Grade Inflation

Finally, we would simply add that grade inflation for CRA exams appears, based on the percentage of financial institutions receiving "outstanding" ratings, to be growing. While we recognize that the CRA exam process is comprehensive, our anecdotal experience makes us question how some of our seemingly less committed partners receive high ratings while others who are genuinely invested in the success of our efforts and other CDFIs, especially smaller financial institutions, struggle to receive high ratings. The outcome is perhaps indicative of the need for re-weighting the importance of CRA activities.

Conclusion

Once again, we thank you for the opportunity to offer input on these important proceedings to reexamine the implementation and impact of CRA. Above all else, we want to reiterate our desire for CRA to more effectively assist the efforts of microlenders. We believe many CDFI representatives portray well the needs of microlenders but fall short of fully advocating for our needs. The impact of that difference has been more vividly seen in the preceding 24 months as small businesses struggle to access capital and microlenders attempt to fill the credit gap. Both in the current crisis and in prosperous times, the role of microlenders will remain an important tool for community economic development and the overall entrepreneurial support climate of a region.

Sincerely,

Jonathan Brereton
CELO
ACCION Chicago