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January 11, 2006

Ms. Lynn Bedard, Community Affairs Liaison
Office of Thrift Supervision
Atlanta Regional Office
1475 Peachtree Street, N.E.
Atlanta, Georgia 30309

Dear Ms. Bedard:

The purpose of this letter is to express Woodstock Institute's opposition to an application by Dearborn Federal Credit Union (DFCU) to the Office of Thrift Supervision (OTS) to convert to a mutual savings bank (MSB), which is proposed to be known as DFCU Financial, FSB. Our concerns are with the Community Reinvestment Act (CRA) plan of DFCU Financial, which does not adequately meet the community reinvestment needs of the proposed bank's assessment area. Woodstock Institute requests that the OTS deny this application unless certain conditions, described more fully below, are imposed. We also request an extension of the comment period, the disclosure of certain additional information, and a public hearing be conducted to discuss the community and other impacts of this conversion.

Woodstock Institute is a 33-year old Chicago-based policy and advocacy nonprofit that works locally and nationally to promote community reinvestment and economic development in lower-income and minority communities. The Institute's goals are to increase the supply of affordable rental housing, owner-occupied housing, small business development, and access to financial services in targeted communities. The Institute engages in applied research, policy analysis, technical assistance, public education, program design, and evaluation. Its areas of expertise include: community reinvestment policy, financial and insurance services, small business lending, community development financial institutions, and local employment programs. The Institute works with community organizations, financial institutions, foundations, government agencies, and others to promote its goals.

DFCU Financial will operate in a diverse community, which includes significant communities of low- and moderate-income (LMI) and minority consumers, including Detroit. Detroit has a population of almost 1 million, of which over 25 percent of the residents have incomes below the poverty level and only 56 percent of individuals over age 16 are in the labor force. Further, over 80 percent of Detroit residents are African-American.

Our concern is that the CRA plan proposed by DFCU Financial does fully address how the new institution will provide loans, services, and investments to lower-income and minority consumers and communities. The following are our specific objections:

General

- The CRA plan states that DFCU Financial has not conducted a demographic analysis of its membership. Therefore, they do not know whether the credit union is serving LMI consumers and communities. This analysis should be part of the CRA plan so that a benchmark can be determined to gauge its progress in serving these consumers.

Lending

- The applicant states that DCFU Financial has a long history of providing auto and consumer loans to its members. Although affordable consumer loans, and particularly auto loans, are a strategic need in LMI communities, this lending can not compensate for residential lending under CRA.

- The CRA plan states that DFCU Financial plans to make residential loans to various income groups within the assessment area in proportion to their proportion of the total population. Woodstock Institute encourages financial institutions to utilize a market share ratio (MSR) analysis as a means to accurately reflect their penetration of lower-income markets. MSR is used to compare lender presence in different, discreet markets (i.e., LMI/MUI or African-American/White). The MSR takes the ratio of the lender's market shares. A MSR near 1.0 implies that a lender has an equal presence in both markets. A MSR well below 1.0 implies and lender is excluding a particular market. A MSR well above 1.0 implies a lender is targeting a particular market. DFCU Financial should project to attain a minimum of a 1.0 market share ratio of lending to LMI consumers to middle- and upper-income (MUI) consumers.

- Affordable mortgage financing is a very important segment of the CRA plan. However, it takes exceptional experience to provide this service. In its CRA plan, DFCU Financial should address how it will acquire this expertise. In addition, the plan does not fully explain which community and consumer organizations it will engage or the nature of those relationships, leading one to believe that the credit union has no history of these strategic partners. In addition, churches are also a strategic partner of outreach efforts in LMI communities.

- The CRA plan states that DFCU Financial will 'apply uniform underwriting standards to all loans considered." However, in an effort to make loans to LMI communities, the bank should consider more flexible underwriting standards. For instance, some banks consider non-traditional payments, such as utilities and rent payments, to assess a borrower's credit rating. Further, banks which use automated credit scoring models often take a second consideration of loan applications by LMI consumers to determine whether other factors should be evaluated. Another example is the treatment of medical debt, which some lenders believe is not a factor in determining a consumer's ability to pay a mortgage loan.

- Although home ownership is very important, it is also essential for DFCU Financial to continue making home refinance loans. Predatory home mortgage lenders target consumers who often have significant equity in their homes. Establishing affordable alternatives is key to addressing this problem.

- The CRA plan focuses on affordable housing finance, which is the major area of lending for MSBs. However, DFCU Financial is authorized to make commercial loans, which are a critical community development need in LMI communities. Congress expanded the commercial lending authority of federally chartered thrift institutions in 1996. The new law allows thrifts to increase commercial lending to 20 percent of assets from 10 percent, provided at least half of the 20 percent is in small business loans.

Investments and Grants

- Community development investments are essential to supporting affordable housing, small business development, commercial revitalization, and other community development activities. Particularly important, are grants to community-based organization (CBOs), community development corporations (CDCs), and community development financial institutions (CDFIs) operating in LMI and minority communities. The CRA plan should include more information on the types of investments DFCU Financial will make.

Services

- Bank branches are a critical part of community reinvestment. Bank branches provide access to mainstream financial services such as prime mortgage loans, checking accounts, and small business financing. Only one or 9 percent of DFCU Financial's 11 current and proposed branches is located in a moderate-income census tract and there are no branches in low-income census tracts. The CRA plan should include goals to add at least 2 full service branches in LMI census tracts.

- Payday loans are high cost, short-term loans at triple-digit interest rates based on personal checks or electronic access to borrowers' bank accounts due in full on the borrowers' next payday. Consumers pay $6 billion a year to borrow $40 billion in payday loans. Consumers targeted by payday lenders are low- to middle-income, military, and minorities. The key to challenging the dominance of the payday loan industry is the development of affordable alternatives. Many credit unions and some banks have developed such alternatives. The DFCU Financial CRA plan should address this important financial need.

- The DFCU Financial CRA plan describes its affordable financial products. However, there is no mention of the barriers that many lower-income consumers often experience when attempting to establish accounts, including whether DFCU Financial will require Chex system reviews, credit checks, and other barriers. Woodstock Institute has identified the following features of a model lifeline checking account to mitigate the cost, credit status, and inconvenience barriers that many unbanked consumers face:

    - No credit check
    - Five dollars or less opening requirement
    - No minimum balance
    - No monthly service fee
    - No teller charges
    - Unlimited check writing

- Free withdrawals from bank-owned ATM machines
- Promotion of direct deposit of paychecks and government benefits
- Multi-lingual customer service representatives

Conclusion

Without the conditions requested, DFCU Financial's CRA activities will only make minimal commitments to the communities. Woodstock Institute requests that the OTS grant our request for an extension of the comment period to more fully consider these issues, and urge the OTS to refrain from approving this application without imposing the conditions listed above. At the same time, Woodstock Institute opposes the application in its present form, and seeks a public meeting to discuss these issues of concern.

Thank you very much for your consideration of these comments.

Sincerely,

Marva E. Williams
Senior Vice President

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