TESTIMONY OF

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BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ON

THE COMMUNITY REINVESTMENT ACT: THIRTY YEARS OF ACCOMPLISHMENTS, BUT CHALLENGES REMAIN

FEBRUARY 13, 2008

Mr. Chairman, Ranking Member Bachus, and Members of the Committee. I am Lawrence K. Fish, Chairman of Citizens Financial Group.

I appreciate the opportunity to testify here today to discuss my personal views, based on over 35 years in the banking business, of the Community Reinvestment Act. In my opinion, this Act has brought tremendous benefits to our entire nation.

Specifically, I believe the Community Reinvestment Act:

1. corrected a previous wrong;

2. has been good for our communities;

3. has been good for business, and

4. can be used as a guiding principle as policymakers consider how to ensure that the rapidly changing financial services industry appropriately contributes to the economic development of all our communities and our nation in the future.

First, the CRA helped right a previous wrong by addressing a practice common in the banking industry in the 1960s and 1970s known as redlining -- denying credit to people based on their neighborhood, race, marital status, last name and other indicators that served as false proxies for "too risky." Redlining was racist, sexist, deeply unfair and, as our industry would later learn, bad business.

The CRA ended this practice. By obligating banks to pursue lending opportunities within their local service areas, it prevented them from taking a community's deposits while ignoring its needs. In the 1990s, meeting strict new compliance tests for a bank's lending, investment and service activities became a prerequisite for approval of mergers and acquisitions. As the merger market intensified, so too did banks' attention to the CRA.

Second, the CRA has been good for our communities. In the span of just one generation, the law has dramatically improved America's previously-underserved cities and neighborhoods. Since 1977, more than $1.5 trillion has been lent for community development. And as regulated-bank mortgage lenders ventured into underserved neighborhoods, small-business lenders followed. In 2005, nearly $11.6 billion worth of small loans were made to business owners in low-income areas, up from $8.2 billion in 1996. Together, home and business ownership build immense social capital. They begin a cycle of wealth creation, neighborhood stability -- even educational achievement. Seen this way, CRA-generated ownership has helped provide an economic corollary to the Civil Rights Act.

Third, and this may come as a bit of a surprise to some of you coming from a banker like me, I believe the CRA has been good for business.

Citizens Financial Group has built a highly successful business around these emerging markets. In the last 15 years, we've grown from the sixth-largest bank in the nation's geographically smallest state to the eighth-largest bank in the United States with over $160 billion in assets. Based in Providence, R.I., we have branches in 13 states. This growth took place not in spite of our commitment to the CRA, but because of it. We now speak more than 70 languages at our branches. Many of these branches are in markets that we might not have entered without the CRA.

Apparently other financial institutions have had similar results. According to the Federal Reserve, 98 percent of large residential lenders reported that their CRA loans were profitable. Within that group, 24 percent found them as profitable as or more profitable than conventional loans. Unexpectedly, banks came to see CRA communities as emerging markets.

Finally, the question is “Where do we go from here?”

Thirty years ago – and last year was the 30th anniversary of the CRA -- no one could have expected the vast structural changes that have taken place in the financial services industry. And likewise we can not precisely predict or anticipate the changes ahead.

The Department of the Treasury recently renewed a far-reaching effort, seeking public input, to improve the overall financial regulatory structure to deal with the vast changes in the industry. We understand Mr. Chairman, from your public comments, that this is also a priority of yours, one with which I wholeheartedly agree.

This is likewise an opportune time for policymakers to consider modernizing community reinvestment requirements using the CRA as a guiding principle. The financial services industry has changed significantly over the past 30 years, and it is an appropriate moment to consider how the opportunities and benefits created by CRA might be extended.

Let me give two examples. First, let's consider giving more dynamic CRA credit for successful programs in financial literacy. Financial literacy is not just about having knowledge concerning financial products and services, it's about how to access them. Second, we should consider expanding CRA participants to include credit unions. Credit unions operate in their communities, and are regulated, in a manner quite similar to banks. Given their number and total assets, it is logical that CRA benefits and opportunities be extended to them as well.

I make these recommendations because the CRA has convinced me that when businesses invest in underserved communities, they are much more likely to return to health. As we commemorate its 30th anniversary, we should not only celebrate the Community Reinvestment Act, but also consider widening the circle of opportunity it creates.

Thank you again for the inviting me to testify, and I would be pleased to answer any questions.