LISC
Helping neighbors build communities

Testimony of

Marva E. Williams

Senior Program Officer, Chicago

Local Initiatives Support Corporation

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Local Initiatives Support Corporation (LISC)

Thank you for the opportunity to testify today on the Community Reinvestment Act (CRA). I am Marva E. Williams, Senior Program Officer in LISC's Chicago office.

CRA has been critical to bringing the capital and financial services that low-income communities – indeed, communities of all incomes – need to contribute to and benefit from the American economy and society. Encouraged by CRA, banks and thrifts have:

- Increased safe, sound, and profitable lending for homeownership and small businesses and farms to low- and moderate-income consumers and communities.

- Developed flexible financial products and services, and marketing strategies.

- Made community development loans and investments to build and preserve affordable housing, economic development projects, and community service facilities that are helping to stabilize families and low-income communities.

Since 1980 LISC has worked in numerous partnerships involving banks and thrifts, nonprofit housing and community development organizations, and government at all levels to revitalize urban and rural communities. LISC currently invests over $1 billion each year in these partnerships. Over time we have invested $8.6 billion, generating $25.3 billion of development activity, including 230,000 affordable homes and 32 million feet of retail and community facilities. Most of this money has come from the private sector, including banks, mostly in the form of loans and investments. Our work covers a wide range of activities that contribute to sustainable communities, including housing, economic development, building family wealth and incomes, education, and healthy lifestyles and environments. Our first name is local, and we operate through 30 local offices and a national rural development program, so we experience low-income communities and see how CRA works up close. Please visit my city, Chicago, or anywhere else LISC works to see how communities once considered hopeless are now reviving, and how CRA is making a positive difference.

In our experience, CRA has been remarkably valuable, but despite important regulatory improvements in 1995, it has not kept pace with many changes in banking, finance, and community development over the last 30 years. For example:

- In 1977, banks and thrifts originated 80% of home mortgages. Insured deposits provided a primary source of funds for home mortgage lending. Today, the secondary market is the primary source of capital for mortgages, and these capital flows are global. By 2006, banks and thrifts originated only 43% of home mortgages, so CRA covers a much smaller share of mortgage lending activities. Many of the largest banks and thrifts operate mortgage bank affiliates, which CRA covers only at the bank/thrift's option and only in areas surrounding branches.

- In 1977, there was no interstate banking and in many states branching was limited or prohibited. Banks were local institutions, deeply involved with civic life. CRA was written to ensure that local deposits were reinvested locally, so it focused on the area surrounding a bank's branches. Today, banks may operate nationwide and conduct much of their consumer business through non-branch channels, including the internet and mortgage brokers. In many cities and even entire states, the major banks are based elsewhere.

- In 1977, the overriding concern of low-income and minority communities was redlining – the denial of credit to entire low-income neighborhoods. Many credit-worthy borrowers had trouble getting loans, especially in low-income and minority communities. Today, thanks to CRA, access to responsible lending is far more available in low-income neighborhoods. The Federal Reserve Board has found CRA lending to be safe, sound, and profitable. But subprime lenders – most of which are not subject to CRA – have aggressively and disproportionately marketed loans to these same kinds of borrowers and neighborhoods. A study by Traiger & Hinckley LLP "concludes that CRA Banks were substantially less likely than other lenders to make the kinds of risky home purchase loans that helped fuel the foreclosure crisis." [1]The subprime mortgage crisis has shown that prudent government regulation is important not only for consumers and communities, but also for the safety and soundness of the financial system and the broader economy.

- In 1977, banks and thrifts were peripheral to federal housing and community development programs and policies. Today, largely because of CRA, banks and thrifts now provide loans and investments that are integral to a sophisticated and mostly decentralized system that taps federal programs like HOME, CDBG, the CDFI Fund and McKinney-Vento homeless housing, as well as tax incentives like the Low Income Housing Tax Credit, New Markets Tax Credit, Historic Rehabilitation Tax Credit, and tax-exempt bonds. Banks also finance the preservation of housing developed through older federal programs, such as Section 8 and public housing. Bank/thrift involvement also links CRA with other federal policies, including: the affordable housing goals set for Fannie Mae and Freddie Mac, which encourage secondary market purchases of mortgages that CRA encourages banks and thrifts to originate; public welfare investment authority, which permits banks to make community development investments, including those based on tax credits; and even the Basel international banking accords, which set risk-based capital standards that determine whether a bank's

[1] Traiger & Hinckley LLP, "The Community Reinvestment Act: A Welcome Anomaly in the Foreclosure Crisis" www.traigerlaw.com, p. 1.

community development investments and loans will generate an adequate return on its capital.

We would offer the following observations and suggestions for modernizing CRA.

- Confining CRA to banks and thrifts no longer makes sense because they now originate a minority of home mortgage loans. CRA should be extended to all home mortgage lenders of significant size, as the Home Mortgage Disclosure Act does. Similarly, CRA should apply to credit unions, which also take federally insured deposits. In assessing performance, it will be important for regulators to consider carefully the local market context – for example, whether the market is well served or underserved, and whether homeownership is relatively widespread and affordable or not. Expectations for home mortgage lending to low-income families should be different in New York City and Toledo.

- Confining CRA coverage to areas around bank/thrift branches no longer makes sense, since branches no longer determine where banks/thrifts do business, branching is irrelevant to non-bank/thrift lenders, and deposits are no longer the primary source of lending and investments. Instead, lending under CRA should be based on where the lender is doing most of its business or where the lender has a substantial market share. Coverage of consumer services, such as checking accounts, could be based on where an institution's depositors are located.

- Although CRA examinations occur regularly, CRA is actually enforced only when a bank/thrift applies for a new power, most commonly to merge with or acquire another institution. As such, CRA enforcement does not apply as long as an institution is not involved in a merger or acquisition. We believe it makes more sense to enforce CRA when as regular examinations are completed. The regulators should also actively and regularly invite public comment on an institution's CRA performance.

- The community development activities of a large bank/thrift should be considered together. Community development activities are qualitatively different from more numerous and standardized home mortgages, small business and farm lending, and consumer lending. Community development activities are generally smaller in volume and sometimes more complex, but they add value and should contribute to a concerted strategy. Currently, community development activities are considered within three separate parts of the CRA exam. As a result, a bank's overall community development activities are hard to assess coherently and become an after-thought instead of integral to CRA performance.

- Many rural areas, smaller cities, and even some entire states have few if any banks with sufficient capacity to address complex community development needs. Banks/thrifts that already adequately serve local community development needs should receive full recognition for community development activities nationwide. Capable banks have expressed an interest in bringing their expertise and capital to underserved areas if they were to receive full recognition under CRA for doing so.

- CRA alone cannot address every issue. CRA should be better coordinated with other related policies, including anti-discrimination laws, consumer protection laws like Home Owners Equity Protection Act, the affordable housing goals set for the Government Sponsored Enterprises, and public welfare investment authority. For example, fair lending laws apply to individual borrowers and CRA applies to communities, but neither law explicitly addresses disparate service to minority communities. Better coordination – and changes in laws as appropriate – will help ensure that consumers and communities are adequately served.

This concludes my testimony. I would be happy to answer your questions.