



Testimony Before the

Committee on House Financial Services

The Honorable Barney Frank, Chair
The Honorable Spencer Baucus, Ranking Member

Hearing: Proposals to Enhance the Community Reinvestment Act

September 16, 2009
10:00 a.m.
2128 Rayburn House Office Building

Submitted by NACEDA
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Enhancing the Community Reinvestment Act

The National Alliance of Community Economic Development Associations (NACEDA) appreciates this opportunity to provide comment for this hearing, as a national representative of more than 3,000 grass roots community economic development corporations, or Community Development Corporations (CDCs). The mission of NACEDA is to empower state and local trade associations to strengthen their communities by building affordable and mixed-income housing, spearheading ambitious neighborhood economic development strategies, and providing essential services for youth, families, seniors, people with disabilities and the homeless. The primary activity of NACEDA members is the development of housing, particularly housing for low-wealth communities and those with special needs. In addition, a Community Development Corporation aims to produce jobs in low-income neighborhoods and maintains 51 percent of its Board of Directors from the community in which it operates. This allows institutions to maintain operational focus on community and to serve the local community in which it is incorporated.

From the macro perspective, NACEDA members produced 1.3 million housing units since 1988 and three quarter million new jobs. These included rental and homeownership. In addition, as federal funding for affordable housing has declined for many communities with cuts to Community Development Block Grant (CDBG) funding, more CDCs are working in coalition to create regional community reinvestment to ensure good use of scarce dollars, particularly for infrastructure.

The Community Reinvestment Act and Performance Measurement Reporting

In 1977, Congress enacted the Community Reinvestment Act (CRA) to control for lender red-lining practices that disproportionately and discriminatorily affected low- and moderate-income populations. Current law requires that all federally-backed lending institutions employ CRA regulations.

Currently lending institutions are evaluated by federal regulators periodically to ensure compliance with the intent of the CRA. The purpose of this periodic evaluation is to measure performance at some level, as determined by the lending institution. This requirement, however, is limited. Neither regulation nor law requires lending institutions to report specific measurements of performance of the institution. Its lack of specific quality performance opens the door potentially for low quality performance and for wide-ranging performance ratings with respect to CRA intent. Recently, 96 percent of the performance examinations of CRA-lending institutions have received “outstanding” or “satisfactory” marks from regulators, yet in 1990, more than ten percent of banks failed their performance exams. This variance in performance rating is indicative of the ambiguous performance requirement, which neither allows lending institutions the opportunity to demonstrate corporate efficacy in CRA compliance. Requiring lending institutions to report more periodically would increase public and peer review, and disclosure of, the lending practices of these institutions, with respect to CRA compliance.

Banking Consolidation and Subsequent Shift from Quality to Quantity

Minimizing the intent of the CRA in preventing discriminatory lending practices, and as lending institutions consolidated in recent years, some lending institutions have shifted their lending practices from quality to quantity in terms of local community lending.

Because higher-income loan applicants have more capital, resources, higher credit scores, and established credit to secure a loan, these applicants can be viewed as more secure for good financial outcomes. Lower-income applicants have the challenges of entering the lending world often without good credit history, lending experience, knowledge of lending institutional and corporate lending practices, and other characteristics that can present less short- and long-term financial opportunity to lending institutions. Consequently, the market could be more prone toward increased volume of loans to higher-income applicants and decreased the volume of loans to lower-income applicants. In addition, managing loans for smaller prospective loan applicants requires on average more human capital and business resources than conventional loans in order to meet adaptively the needs of the local market, unique in terms of screening applicants, monitoring payment efficacy, and maintaining relationships with local communities.

The activity of consolidation of banks has occurred somewhat concurrently with decreased non-profit and community lending, and some banks have almost ceased community lending. Or, they have consolidated within their institutional infrastructure to refocus from community lending to lending with lower risk and less monitoring, which requires investment of time and therefore human capital in creating and maintaining relationships with communities to adapt loans to the local needs of the community. Citibank, for example, one of the country's largest banks, has closed its New York-based community lending group.

Decline in Loans to Non-Profits

The lack of lending presence in local communities has left a void for predatory lenders to fill, and many banks are making fewer community and non-profit loans than in previous years, yet the price tags of the loans are higher than previous years. Absence of community lending also gives opportunity for a lender to maintain more leverage over a market, opens the door for increased uniform lending practices for trusted loan applicants, yet also opens the door for reduction in variation and adaptability of loans to which a local community can apply. **In 2007, one bank in New York City reduced its number of community loans to non-profits for affordable housing by about 50 percent, and also in 2007, one bank committed 38 percent fewer loans to community development organizations than in the prior year. In terms of dollars, one bank reduced its community lending 43 percent.** This drop in non-profit lending is significant to lower-income populations and CDCs because non-profit developers commit to long-term community economic development, whereas for-profit developers do not necessarily and can be more committed to profit than community development. Altogether, the intent of the CRA was to provide incentives to create a level playing field for all prospective lenders, yet the lack of specific reporting requirements does not meet fully this objective.

Recommendations

On behalf of the 45 State and local Community Development Corporations (CDCs), their 3,000 CDC members, and official national CDC partners, the National Alliance of Community Economic Development Associations (NACEDA) recommends to the Committee the following.

1. **Modernize the Community Reinvestment Act to Encourage Local, Community, and Non-Profit Lending.** Since 1977, the intent of the CRA to prevent discriminatory lending has not fully been achieved. In fact, in recent years the corporate lenders, with consolidation and focus on profit, has allowed decreased corporate implementation on the ground of community lending and investment. NACEDA recommends the Committee draft legislation that maintains the key principle that lower- and moderate-income lending needs for community development and non-profits are met best when lenders identify local needs and adapt their lending practices to them.
2. **Require Performance Measure Reporting of CRA Lending Institutions.**
 - a. Because CRA law and regulation are vague with respect to the quality of lending performance, lending institutions have not maintained fully the intent of the CRA to prevent discriminatory lending. NACEDA recommends the Committee require respective federal regulators require lending institutions to report to them key measures that demonstrate efficacy in support of CRA nondiscrimination practice, community investment, and corporate practices of lending that adapts to local community needs.
 - b. Along these lines, NACEDA recommends Committee language that requires regulators collaborate with lending institutions and stakeholders, including organizations such as NACEDA, to develop these general measurements to ensure compliance with CRA while yet empowering lending institutions to maintain flexibility in generating performance outcomes that adapt to their specific lending needs, which affect the needs of community lending.
3. **Require General CRA Reporting of CRA Lending Institutions.** NACEDA recommends the Committee pass legislation that requires lending institutions to submit to their respective federal regulators their corporate plans for offering and issuing loans to local communities whom the CRA first intended to empower. This reporting would provide disclosure of and support of nondiscriminatory lending practices.
4. **Provide Compensation for Committed Community Development Lenders.**
 - a. NACEDA recommends the Committee pass legislation that either empowers federal regulators to provide, or that directly provides incentives to empower lending institutions to increase lending to individuals and local organizations that desire to borrow and invest in lower- and moderate-income communities.