THE FINANCIAL SERVICES ROUNDTABLE
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STATEMENT OF

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ON BEHALF OF

THE FINANCIAL SERVICES ROUNDTABLE

ON

PERSECTIVES AND PROPOSALS ON THE COMMUNITY REINVESTMENT ACT

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

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Chairman Gutierrez, Ranking Member Hensarling, and Members of the Subcommittee, I am William E. Askew, the Anthony T. Cluff Senior Policy Advisor to The Financial Services Roundtable ("The Roundtable"), on whose behalf I am appearing today. The Roundtable is a national trade association that represents 100 of the nation's largest integrated financial services companies. Our member companies provide banking, insurance and investment products and services to millions of American consumers.

Thank you for the opportunity to address the Community Reinvestment Act (CRA). CRA was originally enacted in 1977 to promote new loans and services to low- and moderate-income neighborhoods and consumers. Since its enactment, the Act has more than achieved its goal:

- CRA has become an open and consultative community process, with public schedules of examinations, solicitation of comments from community groups, and public examination ratings and evaluations;
- All of the participants in the process, including lenders, regulators and community organizations have become more sophisticated and focused on how best to achieve the goal of the statute; and
- Most importantly, CRA has generated billions in dollars in new loans, investments and services in both urban and rural areas around the country.

This success story has been well documented. A study by the Joint Center for Housing Studies at Harvard University found that "CRA-regulated lenders originate a higher proportion of loans to lower-income people and communities than they would if CRA did not exist."[1] A report to the U.S. Department of the Treasury found that between 1993 and 1999, depository

[1] Harvard University Joint Center for Housing Studies, "The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System" (2002).

institutions subject to CRA made over $800 billion in loans to low- and moderate-income borrowers and communities.[2] That same report also found that between 1993 and 1998, mortgage lending to low- and moderate-income borrowers increased by 39 percent, while during the same period, lending to middle- and upper-income borrowers increased 17 percent.[3] Finally, according to the National Community Reinvestment Coalition --

> banks and thrifts... have made 341,619 community development loans totaling more than $344 billion since 1996. From 1996 to 2006, the annual dollar amount of community development loans increased 219 percent- from $17.7 billion to $56.5 billion, respectively.... During this same period, depository institutions also made 12,433,172 small business loans in low- and moderate-income neighborhoods totaling more than $513 billion.[4]

Despite this record of success, we believe there is room to refine the implementation of CRA so banking institutions and community groups can better achieve the goal of the Act. In the balance of my testimony, I outline our recommendations for enhancing compliance with CRA. I also address the need to maintain the focus of CRA.

II. Enhancing Compliance with CRA

Incentives for Outstanding Ratings

Today, the overwhelming majority of banks receive a Satisfactory CRA rating. Only about 10% achieve an Outstanding rating. This result should not be surprising. Achieving an Outstanding rating requires considerable effort and expenditure on the part of banking institutions. We believe, however, that even more banking institutions should pursue the top rating. Toward that end, we propose that the federal banking agencies responsible for

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[2] Robert E. Litan and others, "The Community Reinvestment Act After Financial Modernization: A Baseline Report" (U.S. Treasury Department, 2000).
[3] Litan et al. (2000).
[4] *The Community Reinvestment Act: Thirty Years of Accomplishments, but Challenges Remain: Hearing before the H. Comm. On Fin. Serv.*, 110th Cong. 4 (2008) (statement of John Taylor, President and CEO, Nat'l Cmty. Reinvestment Coal.).

implementing CRA institute some measures to encourage banking institutions to obtain an Outstanding CRA rating.

Specifically, we recommend that the agencies:

- Provide for some form of public recognition or acclaim for institutions that achieve an Outstanding rating, perhaps through the design of an official symbol or seal proclaiming an Outstanding CRA rating that an institution could place in bank windows and in advertisements;
- Provide for a longer term between CRA examinations for all institutions that receive an Outstanding rating, not just those with less than $250 million in assets;
- Decline requests for public hearings on merger and acquisition applications when the acquiring institution has an Outstanding rating.

We believe that such incentives would increase the number of banking institutions earning an Outstanding CRA rating, and this would increase the flow of credit and services to low- and moderate-income neighborhoods and consumers.

<u>Greater Focus on Qualitative Factors and Context</u>

Although the existing CRA regulations and interpretations encourage examiners to give extra consideration to projects and activities that are innovative, complex, and high-impact, our members observe that such recognition is in fact rare. CRA should not stifle the creativity and innovation necessary to assist low- and moderate-income consumers and neighborhoods. Too often examiners focus on simple quantitative standards regardless of whether there is under-met need, rather than the qualitative factors - and do not give sufficient credit to innovative, complex, or high-impact projects. High-impact and complex investments, loans, and services are crucial to community development, and are needed now more than ever. Examples of these innovative programs include opening and maintaining homeownership preservation offices in low- and moderate-income neighborhoods, and a bank's efforts to systematically offer and sell at deep discounts or donate properties to local community based organizations. We recommend that the federal banking agencies pay greater attention to innovative, high-impact and complex loans, investments and services in conducting CRA examinations. CRA initiatives that are designed to meet the special needs of a community often can be much more effective than participation in general lending or investment programs.

Additionally, we urge greater attention be paid to the performance context for individual banks. No two banks are alike. Within the context of CRA this means that a simple peer analysis may not be the best means to measure a bank's CRA compliance. The CRA regulations already acknowledge the unique character of individual banking institutions by encouraging institutions to perform their own "performance context" assessments in advance of CRA examinations. These assessments are designed to help examiners consider (a) a bank's unique product offerings and business strategy as determined from data provided by the bank; (b) a bank's institutional capacities and constraints, including the size and financial condition of the bank, the economic climate (national, regional, and local), safety and soundness limitations, and any other factors that significantly affect the bank's ability to provide lending, investments, or services in its assessment area(s); and (c) a bank's past performance and the performance of similarly situated lenders. We recommend that the federal banking agencies encourage examiners to give sufficient attention and regard to these assessments in the conduct of CRA examinations, rather than just relying upon quantitative peer comparisons and demographic benchmarks.

Credit for Non-Mortgage Lending

In recent years, CRA examiners have placed an emphasis on mortgage lending, with constant pressure for individual institutions to match such lending by their peers and by demographic benchmarks, regardless of whether such benchmarks can be met in a safe and sound manner. Typically, CRA examiners have focused more on mortgage lending far more than small business, small farm, and community development lending. Nonetheless, we recommend that the federal banking agencies encourage examiners to give institutions sufficient recognition for non-mortgage lending activities. Small business lending, particularly with its attendant job creation, is just as critical a need as affordable housing, especially in this current economic environment, to the strength of communities across the country. In addition, community development lending which likewise can encompass affordable housing and economic development, although may be relatively low in terms of volume compared to mortgage lending, may have significant community impact. The CRA statute itself is not focused on mortgage lending, but all types of lending in the bank's service area. We urge the federal banking agencies to emphasize all types of lending in examinations- mortgage, small business, small farm, and community development.

III. Maintaining the Focus of CRA

In the first years of CRA, banks, regulators and community activists engaged in a paper chase, creating file after file of community credit needs assessments but funding too few community credit needs. One of the major benefits of the 1995 regulatory revisions was the creation of a regulatory regime much more focused on the business of CRA: providing credit to all of the community, including the low- and moderate-income neighborhoods and consumers.

Given the successful implementation of CRA, now is not the time to change the focus of the statue.

Similarly, we do not support the extension of CRA to securities brokerages, mutual funds, and insurance companies. CRA is based in the centuries-old convenience and needs obligation inherent in banking charters. The Act describes this obligation as follows:

> "(1) [insured bank and savings associations] are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;
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> (2) the convenience and needs of communities include the need for credit services as well as deposit services; and
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> (3) [insured banks and savings associations] have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered."

CRA has succeeded because it is linked to the charter obligation imposed on banking institutions. It should not be assumed that extending CRA to institutions that are not subject to a similar obligation would be successful. While mutual funds, insurance companies and brokerages have duties and other obligations to their customers, they are not subject to the same type of community convenience and needs obligation that is part of the bank charter. Banks are unique in this regard, and CRA is based on this unique obligation.

Moreover, proposals to extend CRA beyond banking firms raise several policy questions. What would be the basis for extending CRA to firms that are not subject to the same "convenience and needs" obligation inherent in a bank charter? If CRA is extended to nonbanking firms, what types of firms should be covered? Since insurance companies and brokerages do not do much lending, how will we judge their CRA performance? Both insurance companies and brokerages have limitations to investing primarily in investment grade securities, either as a prudential standard to preserve the companies' capital or as a customer fiduciary standard. It is highly likely that these investment restrictions will pose very difficult problems to trying to apply CRA to insurance companies and brokerages. There is simply no adequate basis for a broad extension of CRA to other financial service companies.

Finally, we do not support proposals that call for additional customer information collection, monitoring and reporting. Not only would these proposals impose additional costs and burdens on the banking industry, they can jeopardize the privacy rights of our customers.

IV. Conclusion

CRA has helped to transform urban and rural communities throughout the U.S. The members of the Roundtable are proud of the role they perform under the Act. We believe that with some minor refinements the federal banking regulators could encourage even greater benefits for local communities. We also believe that now is not the time to change the focus of CRA. We should write a new chapter in this success story, not rewrite the story.