Testimony of Andrew W. Gordon

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Thank you for the opportunity to testify on modernizing the Community Reinvestment Act (CRA). My name is Andy Gordon and I'm speaking with you today not as a student of, or an expert on, CRA but as a practitioner of community development. I have over 30 years of on-the-ground experience in community development and lending, from rural Nevada as a VISTA volunteer in the 60's, to over a decade in New York City during the Urban Development Action Grant era of the 80's, and now about 20 years in my home state of Arizona as the founding president of Arizona MultiBank Community Development Corporation. In many ways, Arizona MultiBank CDC, its customers and I are consumers, beneficiaries of CRA.

It is from this point of view that I wish to share some of my observations on CRA in this time set aside for reflection, projection and suggestion.

Arizona MultiBank CDC is a non-profit Community Development Financial Institution (CDFI) and, through July 31, 2010, we have responded to financing needs with 400 loans totaling $43 million to small businesses, nonprofit organizations, affordable housing projects and economic development initiatives throughout Arizona, in urban, rural and reservation communities. Loans range from $500 to $1 million and total project costs exceed $166 million. Banks that have invested in Arizona MultiBank CDC directly provided over $95 million of financing in these projects.

In 1991, the OCC, the Federal Reserve Bank of San Francisco and the FDIC all played a very important role in guiding us and our prospective bank investors, in structuring a strong organization and financial platform so we could be proactive over the long term (and I emphasize over the long term) in our mission of responding to legitimate unmet credit needs expressed in our Arizona communities.

Valley National Bank of Arizona, along with the Arizona Bankers Association, led the charge in the banking community to establish Arizona MultiBank CDC. At the time I knew little about CRA but Valley National Bank, the largest bank in Arizona, soon to be Bank One and later JPMorgan Chase, was obviously motivated to take the lead on this initiative with the regulators (primarily the OCC).
I experienced firsthand how the combination of the iron fist in the velvet glove of CRA, and the deep and sincere commitment of the pre-interstate banking executives and local bank board members, can encourage innovation; we pioneered an equity equivalent investment instrument that, to this day, provides the financial footing for Arizona MultiBank CDC's effective community development lending. Regulators, banks and the community came up with a viable and lasting capitalization structure for a non-profit corporation. Coincidentally, three of Arizona MultiBank CDC's investors are here on this panel with me – Wells Fargo Bank, Bank of America and USBank.

I've provided this background because I believe it provides a context for the regulators as CRA is revisited and refined.

Arizona MultiBank CDC enjoys great support from our 18 investing banks but I think, now, *less* so because of CRA and *more* so because of the personal commitment of local leadership at those banks. Arizona MultiBank CDC's current Chair, from Bank of America, has volunteered with us for over 19 years; this bank executive approves $20MM credits at BofA on one hand and advises us on a $20M loan on the other. Because of the thoughtful process in our founding capitalization, strong management and Board leadership, and an on-going understanding and refinement of our business model for community development lending, Arizona MultiBank CDC has, and will continue to serve the community over the long term. Current CRA regulations undervalue the enormous bank involvement we enjoy and from which the community benefits.

The CRA should have a greater emphasis on, and hence provide a source of encouragement for, an investing bank's role in: sourcing community development loans (that they can't do in whole or in part), the underwriting of these loans, sharing in the actual loans originated (e.g., Wells Fargo investment capital represents over a third of each of our loans), utilizing Arizona MultiBank CDC loans as a credit enhancement to their own loans, refinancing of Arizona MultiBank CDC loans or participations when businesses and projects reach their stride and become fully bankable and, especially as Arizona MultiBank CDC continues to develop and provide creative and innovative financing products, an investing bank's role in the on-going leadership at the Board and committee level. A bank's initial investment in Arizona MultiBank CDC, and many other CDFIs and opportunity finance organizations, is the gateway to expressing a fuller tangible commitment to sustainable investment in our communities.

It seems that CRA in practice really doesn't assign enough value to the significance of the whole package. From my vantage point, it is not difficult to tell when a bank's activity in the community is a "check the box" entry into the market, and when it is a studied, long-term commitment to reach further into the community with lending products and services. Community development is local; it is patiently proactive and requires a solid commitment in all the areas I mentioned, and more, to be responsive and successful. My sense is, however, that the heavily weighted elements of CRA exams measure more discrete, quantitative activities of the banks, in silos … rather than looking at the whole farm. In my mind, the whole farm approach encourages and insures sustainable investments, lending and services in difficult-to-serve target markets.

Clearly CRA measurement of tangible progress in small business lending and housing encourages meaningful financial support in these areas for impact in our communities. Banks get this, are very good at it for their exams, and the benefit for the community is significant. The basis for these measurements grows from what is known and what exists in terms of historical characteristics of borrowers and communities. The cutting edge of community development, and reaching underserved targeted populations in a meaningful way, often comes from what is *not* fully understood today and lending products that require special partnerships that need to be nurtured and developed over an extended period of time. With success, these financial products, and the customers they serve, are mainstreamed and we can say with pride that we are systemically connecting financial resources to persons and communities that would not otherwise share in full potential of the American dream. Engineered financial products should be for the good, and not the greed, and CRA is one way that this outcome is encouraged and rewarded.

Last, I would be remiss in my conscience if I didn't mention that today's economy requires not just the focus of community reinvestment but, really, affirmatively stemming the tide of unintentional disinvestment. Sweeping actions have been taken because banks are "too *big* to fail", now it is time to take some courageous action because our communities are "too *important* to fail".