CRA Reform Testimony – Eric Weaver, Opportunity Fund

I greatly appreciate the opportunity to provide comment on modernizing the Community Reinvestment Act. My name is Eric Weaver, and I am the CEO and Founder of Opportunity Fund. Opportunity Fund is a certified CDFI operating in the San Francisco Bay Area. We are the largest small business microlender in Northern California, and one of the two largest providers of Individual Development Accounts, or IDAs, in the nation. We also finance affordable housing and other community facilities.

Since 1995, Opportunity Fund has invested $175 million into the distressed neighborhoods of San Jose, San Francisco, Oakland and nearby cities. From the beginning, our model has relied on partnerships with banks, to provide loan capital, operating support, back office support, loan referrals and other expertise. There is no question that we would not have been able to accomplish what we have without a strong, and strongly enforced, Community Reinvestment Act.

In recent years, it has become increasingly clear that the nation needs a revitalized approach to the responsibilities outlined in the Community Reinvestment Act—an approach that reflects the seismic shifts in the way financial institutions do business, in the changing needs of their customers, and the increasing reach and sophistication of their partners. This new version of CRA must:

- Update the concept of "assessment areas" to keep pace with the shift in financial institutions' geographic relationship to their customers, including on-line banking and non-branch deposits;
- Reward financial institution investment in all kinds of CDFIs; and
- Consider new approaches to considering, evaluating, and crediting community development activities, with additional emphasis on the importance of savings.

Opportunity Fund is a proud member of both the Opportunity Finance Network and the California Reinvestment Coalition, and we generally support the recommendations they have put forth as part of this process. In order to keep my testimony brief, I will focus in on a handful of issues we consider to be of particular importance to our work.

<u>Assessment Areas</u>
On the issue of assessment areas, we agree with the California Reinvestment Coalition that CRA responsibility should follow where a financial institution makes profit or takes deposits.

For example, if a bank offers a credit card to a person—something it can do easily without a brick-and-mortar presence—its CRA responsibility (to provide comparable service for all its products and services) should, in principle, extend not only to that person but to the geographic market where that person lives even when there is no bank branch in that location.

<u>Investment in CDFIs</u>
CDFIs are private-sector, public-purpose financial institutions that combine mission with market discipline and sound lending practice, successfully executing deals perceived as "high risk." They lend and invest responsibly in urban, rural, and reservation communities across the country, financing small business, affordable housing, and community facilities opportunities often overlooked by other lenders. For decades, CDFIs have met the challenge of providing access to capital and credit in economic turbulence. Financial institutions have been a critical partner in that effort. Bank investment provides a significant portion of the capital that CDFIs use to lend and invest in their markets. But banks get something out of

the deal, too: reliable, efficient investment vehicles for both financial and social return; entrance into new markets; co-lending that shares the risk of direct transactions; and not least, of course, credit under CRA.

Opportunity Fund is a prime example of the power of partnerships between banks (motivated by business reasons and CRA) and a CDFI. Banks provide most of our loan capital, service and document our loans, and provide personnel to help us evaluate lending opportunities. They send small business customers to us who fall outside of their credit criteria, and we give them a way to meet the customer's credit need while maintaining a deposit relationship. We make early stage loans for real estate projects like affordable housing, for which banks subsequently provide profitable construction loans.

Regulatory considerations that encourage financial institutions to continue to invest in CDFIs will extend the reach of CRA. In particular, regulators should provide that an investment into a CDFI helps satisfy a financial institution's CRA obligations regardless of whether the CDFI operates in the institution's assessment area. One simple way to do this is to provide CDFIs the same regulatory treatment afforded to minority- and women-owned depository institutions, providing CRA consideration for investment in CDFIs regardless of location.

Opportunity Fund's customers are 60 percent female, 75 percent minority, and 90 percent low or moderate income. By statute, CDFIs must serve the low- and moderate-income communities referred to in the CRA. Both the statutory requirements and the actual performance of Treasury certified CDFIs support the addition of CDFIs to this Q&A and in other communications from the regulators. Since these markets overlap, it makes sense to support banks' reaching these customers through CDFIs.

Institutions should also receive CRA credit for a range of strategies, including credit enhancements such as guarantees or letters of credit; and for long-term, renewed, and continuing investments as well as the "first" investment in a CDFI.

Importance of Savings
Opportunity Fund operates an Individual Development Account (IDA) Program that provides comprehensive financial education and matched savings accounts to low-income families. We would be unable to offer this life-changing asset building program without a financial institution partner to house the accounts and provide us with timely data. In our case, Citibank provides savings accounts to our clients free of charge. It has been very difficult to find other banks willing to provide this vital function. We urge you to give strong CRA consideration to the provision of savings opportunities to low-income households.

Small Business Financing
Under CRA currently, there is insufficient motivation for banks to focus on very small businesses. Loans to all small businesses with revenues under $1 million are given the same consideration. Data should be collected on loans to businesses with revenues less than $500,000 and less than $250,000. Also, there should be more recognition for the number of loans made to small businesses, rather than simply the dollar amount. Data should also be collected on the income level of the business owner, with additional credit given for loans to low and moderate-income business owners.

Other
Opportunity Fund supports efforts to push Congress to expand CRA to cover all financial institutions. We also support adding a "low satisfactory" rating to increase pressure on financial institutions covered by CRA to perform. We would also be supportive of adding additional reasons for enforcement actions, beyond mergers/branch closings, etc. A low rating in and of itself should be reason enough for enforcement action.

Conclusion

The CRA's thirty-year track record proves that community reinvestment and safety and soundness can work together to produce results that are good for financial institutions and for their communities. The broad principle of affirmative obligation to serve communities will continue to serve as a foundation while regulatory and implementation changes update CRA to meet the changed—and still changing—needs of markets and communities.

Thank you for the opportunity to provide testimony on the future of the CRA. Please do not hesitate to contact me at 408-516-4601 or eric@opportunityfund.org if you have questions or need additional clarification.