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Seattle, Washington

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My name is Sharon Lee and I am the Executive Director of the Low Income Housing Institute (LIHI) based in Seattle, Washington. I wish to thank Joan Ling, Executive Director of the Community Corporation of Santa Monica, for presenting my testimony today on the Community Reinvestment Act (CRA).

The Low Income Housing Institute is a nonprofit housing organization based in Seattle. We have developed over 3,800 units of affordable housing in six counties in the Puget Sound region. We serve as an advocate on housing policy, housing preservation and ending homelessness. We develop housing along a wide spectrum of the continuum: from supportive housing for homeless people to for-sale townhouses and condominiums for low- to moderate-income families. For over 15 years, we coordinated the activities of the Washington Reinvestment Alliance (WRA) to ensure that CRA commitments are honored in Washington State.

Modernizing and improving CRA is sorely needed! The federal agencies must revamp the evaluation tools to measure outcomes so that we can clearly quantify the CRA benefits to low- and moderate-income communities and people of color. The current performance measures are inadequate and too cursory. Bank examiners are often not asking the right questions. As consumers, we currently lack confidence in the bank examination process.

The system is flawed if 98 to 99 percent of the banks pass their CRA exam, yet low- and moderate-income consumers and communities of color are not being adequately served. This is evidenced by the subprime loan foreclosure crisis, the proliferation of payday loans, and the lack of community development financing for nonprofit affordable housing developers.

Small Business and Consumer Lending

Substantial changes are needed to improve the performance of financial institutions in making loans to small, minority-owned and women-owned businesses.
In the state of Washington in 2008 there were 248,296 small business loans made with a dollar amount of $6.6 billion. How can we measure the benefit, or the positive impact in the community, of loans to minority and women-owned small businesses if this data is not required to be collected? It is time for banks to collect and report this information and for CRA exams to include separate dollar volume and number of loans to minority and women-owned small businesses.

To ensure that specific low-income and minority neighborhoods are not redlined from receiving small business loans, the data could be collected in a manner that is defined by local government and the community. Many if not most cities and counties have identified their target neighborhoods, census tracts and distressed areas for increased investments. Banks that are in tune with local needs will know these target areas. The current method of reporting on small business loans cover areas that are too large geographically.

Financial institutions have a responsibility to offer a range of consumer lending activities that address the needs of low- and moderate-income borrowers. The federal agencies should establish benchmarks to assess the quantity, quality **and** affordability of various consumer loan products and to ensure that low-cost banking accounts, financial education and services to the un-banked are offered in the assessment areas. Much has already been learned in the field on how best to deliver banking services to low-income communities. A commitment to implement and achieve results is key. The CRA exam and rating should evaluate the affordability of a product and assess whether a new or innovative product is being offered extensively throughout the service area and not just operated as a “pilot” or demonstration.

How can we tolerate two banking systems: where payday loan offices dot the landscape and outperform mainstream banks for vast numbers of low-income families and individuals? The federal agencies must require banks to recommit and expand their operations, including locating branches, ATMs, home mortgage and business centers in low-income and minority communities, instead of retrenching.

Under CRA, there should be significantly more emphasis placed on locating accessible banking services in walkable neighborhoods, near transit, stores and neighborhood business districts. How can banks truly serve the small business and consumer credit needs of low- and moderate-income borrowers without locating branches with welcoming and responsive employees in the community?

One critical consumer need that has been ignored for far too long is financing to enable low- and moderate-income households to purchase mobile homes and manufactured homes. Nationally, over 10 million households live in mobile homes. This is often the most affordable form of home ownership for many seniors and first-time homeowners. In Washington, are seeing an increasing number of Latino families with children living in mobile home communities. These families are in need of an affordable loan product to purchase their homes. Otherwise, they are victims of predatory chattel loans with high interest rates in the double digits. In Washington State, there are about 1,600 mobile home communities with 77,000 households. Under CRA, lenders should demonstrate their responsiveness to this need in the market.

CRA Data Collection, Reporting, Disclosures & Performance Evaluations

The HMDA information must be supplemented or expanded to ensure that banks are making sufficient quantities of loans with reasonable terms to minority, low-, and moderate-income households. LIHI recently completed 48 townhomes and flats for first-time buyers with modest incomes in the Seattle area. We noticed that some immigrant families, many with extensive savings and no debt, were put through the wringer on qualifying for home loans. Because they had no credit cards, no car loans, paid their bills on time, and therefore had no credit rating; they were initially rejected for a loan. We believe that it is not acceptable for minority households with alternative credit to be treated this way. Some lenders are making it extremely difficult for lower-income and minority households to obtain loans.

Lenders are seeking “double” documentation on all the paperwork submitted and creating barriers to home ownership. We even had a situation where the bank would only qualify the wife for a mortgage but not the husband because she had credit and he did not. We are in agreement with NCRC that loans to minorities should be an explicit criteria under CRA and lenders should be judged on the actual numbers of loans made to minority households.

While banks may make home loans in low- and moderate-income neighborhoods, we do not know the extent to which these loans are made to minority households. Nor do we know whether the loans are at subprime or offered on unreasonable and abusive terms and conditions. We ask that new CRA rules address these concerns.

We strongly believe that insufficient weight is given to community development loans, affordable rental housing and investments in the CRA exam. The availability and financing for affordable multifamily housing should be given as much if not more weight than single-family loans, as the bulk of low-income people are served by rental housing. The for-profit private development sector is not geared to serve either homeless households or low-income households below 50% and 80% of the area median income. In addition to investments in low-income housing tax credits, we would like to see banks rated on the quantity and volume of affordable long-term loans closed on multifamily affordable housing. Nonprofit developers in the Pacific Northwest and across the country are in particular need of fixed-rate 30-year loans. In addition to long-term debt, we ask that land acquisition loans, working capital loans to nonprofits, and equity equivalent investments (EQ2) for affordable housing be a requirement in order to achieve a Satisfactory or Outstanding rating for financial institutions that engage in real estate activities. We are seeing a trend where many lenders only want to do short-term construction financing. This will cripple the nonprofit sectors' ability to help solve the housing crisis.

We believe lenders should not be given credit under the Investment test if they participate in the Low Income Housing Tax Credit program yet are unwilling to provide term debt to go along with the tax credits and compliance period. We also believe that lenders should not be given Investment credit for investing in New Market Tax Credits if they are not willing to offer a term loan product to help finance community development projects that help create jobs and improve the community. We had a situation where a lender provided us with New Market Tax Credits for construction of for-sale housing --yet would not provide home loans for the buyers.

We believe that banks should be given credit for lending to projects serving homeless people and households at/or below 50% of area median income. Nonprofits housing organizations have made significant strides to ensure that affordable housing is preserved over the long term. Non-traditional housing that provide affordable home ownership opportunities such as community land trusts, co-housing, manufactured home communities and cooperatives should also be encouraged.

The process of assessing a bank's performance under CRA should be open for community input and comment. A cross section of the community, including local government officials, and representatives of neighborhood organizations, housing and small business groups should meet with examiners and lenders. We feel strongly that even if a financial institution receives a passing mark, whether Satisfactory, Outstanding, or a new grade, there should be "conditions" required of the bank to improve their performance in key areas over a recommended timeframe. Having exchange and input on a bank's performance would ideally improve CRA performance and lead to increased reinvestment in our low-, moderate-income and minority communities. To ensure that bank examiners are not out of touch with the needs of the community, it would make sense to have an appeal process for CRA ratings.