Testimony: Ali Tarzi

Community HousingWorks

Building Communities. Changing Lives.

August 10, 2010

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Ms. Johnson:

The following are the comments of Community HousingWorks, San Diego County's most comprehensive housing nonprofit, on the agencies' hearings about potential revisions in the Community Reinvestment Act (CRA).

First, to introduce ourselves. Community HousingWorks is a 28-year-old nonprofit, founded to create housing and housing options to help people and neighborhoods move up in the world. We serve low and moderate income residents and communities with affordable rental housing, first time homeownership lending and realty, foreclosure prevention services, and financial fitness and homebuyer education. We are a CDFI homeownership lender, and a NeighborWorks affiliate. We are also a proud member of the California Reinvestment Coalition, the California Rural Housing Coalition, and the National Council of La Raza.

In order to conduct these complex and award-winning community development activities, we work with CRA-regulated banking institutions daily. We hold millions of dollars of homeownership loan assets, utilizing bank "lending" and "investments". Over $150 million of "lending" and "investments" in construction loans, Low Income Housing Tax Credit investments by financial institutionis, and permanent loans have been invested in our affordable rental housing. We are certain that CRA, and the 1995 revisions to the CRA regulations that created the "lending", "service" and "investment" tests, have created the conditions for banks to extend themselves and finance courageous projects for hard-to-serve people and communities that were previously excluded. Our daily magic for our residents would not be possible without CRA.

However, the dramatic changes in the banking industry over the last 15 to 30 years have threatened to leave behind the critically important regulatory incentive system of CRA. These failed incentives have had recent and negative impacts on the San Diego rural and urban communities we serve.

- Because of the way in which assessment areas are designated, we have been told that San Diego as an entire market is not currently a CRA priority for a number of major banks. Many of them do invest and lend in community development projects despite this status – and frankly tell us that they cannot provide as much as they could if this status were otherwise. This is not acceptable -- we are the second largest metropolitan area in California and among the largest metro areas in the country! By any commonsense measure, our underserved communities' credit needs have not been adequately met.
- The current CRA system provides the strongest incentives for lending and investment in San Diego only to those banks that have active merger and acquisition strategies.

There are other impacts felt in San Diego County that are national in scope as well. They have been well articulated by other commenters, such as LISC and Enterprise. On the threat side, they include the failure of the CRA system to cover a large part of the financial services industry, and the end of the tight geographical link between area deposits and area financial services. On the opportunity side, there has been the growth of sophisticated and high-performing community development and Community Development Financial Institution sectors, thanks in large part to the existing CRA system.

We support the following priorities for modernizing CRA to help it to achieve the original goals of the statute in the current financial institution environment.

- Expand the range of institutions that CRA covers. The agencies should consider all affiliate activities for examination under CRA. CRA should apply to all activities of bank and financial services holding companies, not just insured depositories.
- Refine assessment areas of responsibility. CRA responsibility should follow where the financial institution makes profit or takes deposits. Nationwide institutions should have CRA responsibility to low and moderate income people and communities nationwide. Escaping a "full-scope review" should not make an area a "credit desert".
- Formally recognize a fourth activity area, "community development", that would provide a path to provide a qualitative review of community development activities. Just as one example, within the same income eligible community, there should be a way to distinguish the lender's different level of risks and effort in lending to an apartment community that serves mentally ill youth aging out of foster care, and lending to a market-rate apartment complex in the same community. Community development goals are key to the act, but we will only get what we measure.

- Race and Ethnicity. All of the research demonstrates that prejudice in lending decisions persists. CRA examinations must include an evaluation of disparate treatment that is strong and transparent.
- Assess services with rigor and attention more similar to the “lending” and “investment” tests. If covered institutions are not proportionately meeting the daily account needs of their communities and local residents are going to payday lenders and predatory institutions, that matters. CRA should be incentiving the creation of the basic transaction or savings accounts that are the first family step in the ladder of financial management.
- Increase interventions to assure small business lending needs are met. Small business lending is dropping and performance in meeting the needs of the sector that creates most of the country’s jobs is critical to meeting the country’s goals. We support the California Reinvestment Coalition’s recommendations in this area.
- Strengthen performance incentives and enforcement tools. In a classic “grade creep”, since the mid-1990’s, almost all the institutions are rated Satisfactory – and the data does not show a marked increase in meeting low income communities’ credit needs. So what is the value added by the whole CRA review rigamarole if it can’t make distinctions among performers? We echo LISC and others in recommending that the agencies create more rating levels, including a Low Satisfactory and High Satisfactory. Agencies should require remediation plans for Low Satisfactory institutions, oversee implementation; and create an incentive for Outstanding performance that would be a meaningful incentive.

We are tickled that the agencies are asking these questions about improving the regulatory implementation of CRA, and look forward to being a continuing part of the policy discussion.

Sincerely,

Susan M. Reynolds
President and CEO