Testimony of Jeff Schaffer

On behalf of

The Southern California Association of Nonprofit Housing

At

Public Hearing on Community Reinvestment Act Regulations

Los Angeles, California

August 17, 2010

Good afternoon, I am Jeff Schaffer, Vice President at Enterprise Community Partners, representing the Southern California Association of Nonprofit Housing (SCANPH.) SCANPH creates affordable housing opportunities for low-income people by expanding the knowledge, capacity and influence of the nonprofit housing sector. We are a membership organization that supports the production, preservation and management of homes affordable to lower-income households. Our 350 members include nonprofit organizations, public agencies, lenders and investors, of which approximately one-third are community development corporations. SCANPH members have produced more than 100,000 apartments, condominiums and houses throughout the region, and provide housing and services to the homeless, disabled households, elderly, working poor, single parent households, immigrants, low-income families and low-income first time home buyers. The need for affordable rental housing in southern California is acute.

SCANPH applauds your leadership in holding these public hearing to examine the current state of CRA's regulatory regime. CRA is important to SCANPH members because CRA is what has motivated the banks to lend on and invest in affordable housing in low-and moderate-income neighborhoods. While I am not a banker or an expert on bank regulation, I have seen first hand how important CRA has been in spurring public-private partnerships that finance affordable housing. Although we have seen some good local examples of community investment, such as with the New Generation Fund, more generally in recent years we have seen declines in financing for affordable housing and community development both because of the financial crisis and the recession, and because CRA does not have the force it once did.

As you well know, the community development field has evolved a great deal since the “lending,” “service” and “investment” tests for larger banks were created in 1995. Thanks in part to the CDFI statute, CRA, tax credits, and other policies, a whole industry has arisen that provides credit to low-income communities and individuals on more favorable terms than the private market alone could provide. CRA, in combination with policies mentioned above, has given financial institutions the motive and opportunity to invest in public-private partnerships with local CDCs and CDFIs, and local governments.

Currently, evaluation of bank activity supporting community development is scattered among the lending, service, and investment tests, depending on the form the investment takes. The multifamily housing that SCANPH members develop takes much more time and attention to finance than conventional single family mortgages, yet if CRA examinations are only a matter of filling in loan volume on tables, there is no distinction made. The time and complexity required by community development projects needs to be recognized by a separate test that looks at community development as an integrated whole.

This is why current regulations should be augmented with a "community development test" that replaces the investment test. Lending, services and investments in affordable rental housing, economic development projects, community facilities like child care centers and charter schools, community loan funds, microfinance loan funds, and other community development activities in low-and moderate- income communities should qualify for this test. Equity investments in community development financial institutions and other investments in building the capacity of community developers should qualify as well. The dollar value of the activity should be considered as well as how far the institution has stretched to meet community development needs, consistent with safe and sound lending.

Furthermore, the agencies should consider all affiliate activities for examination under CRA. Many financial corporations have organized their corporate structure in a manner that puts normal banking activities under affiliates where they have not been overseen or examined in the past. Affiliates and subsidiaries should be regulated and examined along with the bank.

Effective community development starts with an assessment of the community's needs. To make the community development test most effective, a bank's activities should be compared against an objective analysis of what that market needs. Is there a need for rental housing? Affordable homeownership? Community facilities? The regulatory agencies should work together on an interagency analysis for each major metro area that replaces the assessments of community needs done by individual agencies as part of CRA exams of various financial institutions.

Thank you for your time and attention.