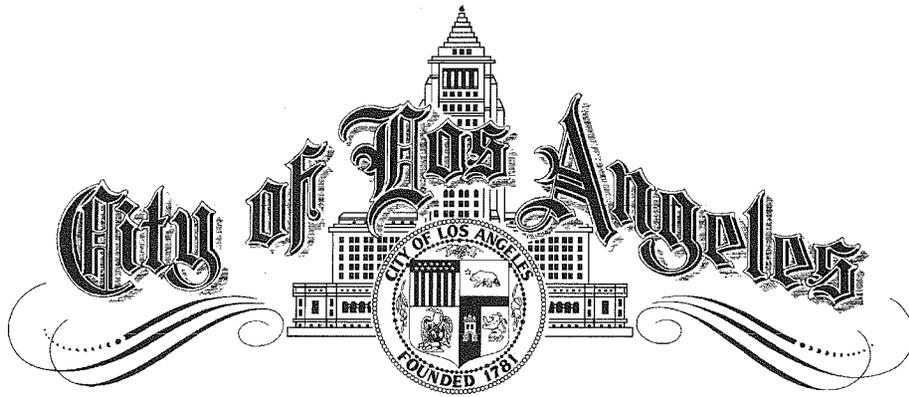


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RICHARD ALARCÓN
Councilmember
Seventh District

**Testimony of Richard Alarcón
Councilmember, Seventh District
City of Los Angeles**

Before the Board of Governors of the Federal Reserve System (Docket No. R-1386)
Federal Deposit Insurance Corporation (RIN 3064-AD60)
Office of the Comptroller of the Currency (Docket ID OCC-2010-0011)
Office of Thrift Supervision (Docket ID OTS-2010-0019)

At the Joint Public Hearing on the Community Reinvestment Act Regulations
Tuesday, August 17th, 2010—Los Angeles, CA

Introduction

Good afternoon, and thank you for this opportunity to testify. My name is Richard Alarcón, and I am the Councilmember representing the Seventh District of the City of Los Angeles. The Seventh District encompasses the communities of the Northeast San Fernando Valley. We are a diverse community of more than a quarter million residents of varied backgrounds, with sizeable populations of Latino, white, Filipino and African-American residents. The Seventh District is one of contrasts. We have some of the very poorest communities in the city, but we also have a relatively large middle class. We have the 3rd highest homeownership rate in the City (55%), and yet we also have the highest number of single-home foreclosures in Los Angeles as a result of the current foreclosure crisis.

Today, I want to share with you my recommendations on updating the Community Reinvestment Act (CRA) from my perspective as a legislator who for 17 years has served on behalf of the San Fernando Valley as a State Senator, Assemblymember, and now as the City Councilman of a district with one of the largest under- and un-banked populations in the City.

Recommendations

1. Close Regulatory Loopholes

One of the most crucial aspects of regulatory reform is closing the loopholes that allow banks to exclude their holding companies and affiliates from Community Reinvestment Act (CRA) regulation. We must ensure that the full spectrum of lending and investment activities is subject to CRA exams. As we know from recent analyses of the financial crisis, the vast majority of the problematic sub-prime loans that helped fuel the housing crash were made by bank holding companies not subject to CRA. To remain faithful to the intent of CRA, institutions should be measured by all of their lending, and not just where they have branches or when they choose to disclose the lending of their affiliates. We live in an era where we receive credit offers in the mail from institutions that may not have a single branch in our community, let alone State. It would be more faithful to the intent and spirit of the law to grade banks based on the range of products that are offered to all communities served, and not simply where they choose to branch.

2. Provide Localized Data

There is growing interest across the country from individual citizens, communities, state and local governments to invest in banks that are in turn "investing in us." In 2002, the City of Philadelphia enacted an ordinance that requires that the City's depository institutions submit an annual "report card" detailing local lending and investment activity. Institutions that fail to do so, or fail to demonstrate adequate local investment, will be (and have already been) divested from. From a taxpayer guardian's point of view, the logic is simple- taxpayers can and should expect that at least some of their dollars will be re-invested locally.

Here in Los Angeles, I am spearheading a Responsible Banking Act that would set standards for taxpayer dollars invested in the City's \$6 billion short-term portfolio, prioritizing investment in institutions that are in turn extending credit and capital to our local homeowners, local businesses, and local development projects. Since introducing a Resolution on this matter at the National League of Cities Conference in Washington, DC this past March, my office has received literally dozens of calls from other cities, from those as large as Boston to one as small as a town of several hundred in northern Oregon, interested in creating similar legislation in their communities.

Current CRA grades are too blunt an instrument to adequately track investment activity at the local level. But this could easily be changed. Specifically, I suggest that FDIC's annual Summary of Deposits survey process be modified to collect information on commercial and industrial lending, and residential mortgage lending, by branch. More disclosure will allow state and local governments, and nonprofit advocacy groups, the tools we need to evaluate institutions that are investing in our communities. In this manner, data disclosure can be used to leverage philanthropic and public initiatives such as ours in order to maximize the impact of CRA in promoting community credit needs.

Since, as discussed, not all banks serving communities have a branch located in that area, I also suggest that the FDIC consider introducing an alternative data collection method for institutions that are serving communities with financial products, but do not have a branch located in the local zip code. FDIC could collect CRA reporting elements

from those banks that do not have a branch but do lend within an area's zip code such as: the number, total value, and average loan size of residential mortgages within each zip code; the number, total value, and average loan size of commercial real estate mortgages by zip code; and the number, total value, and average loan size of commercial and industrial loans by zip code, for example. This will allow accurate and timely analysis of local re-investment.

Closing Thoughts

I'm thankful that you decided to host one of the four nationwide CRA hearings here in Los Angeles, because I truly believe that the power and promise of CRA, as well as some of its current regulatory gaps, are evident in our City. When originally passed in 1977, the CRA was a landmark bill that effectively ended pervasive redlining and contributed to the extension of small business and community development lending in low-income communities, and communities of color, that had previously had very little access to capital.

CRA, along with the disclosures passed in the Home Mortgage Disclosure Act (HMDA), has been the largest driving force encouraging financial institutions to extend credit to low- and moderate-income and minority borrowers to purchase homes. The high rate of homeownership in districts like the one I represent, for example, are testimony to the power of CRA and data disclosure.

Today, due to a number of factors, the availability of safe, affordable financial products and investments unfortunately is out of reach of too many of our citizens. Now, more than 30 years later, it's absolutely crucial that CRA be updated to remain faithful to its original intent of ensuring access to credit and capital, the lifeblood of our local and national economy. Increased data disclosure can help bridge this gap, by allowing cities, states, and advocacy and philanthropic groups across the nation to measure and leverage investment in our communities at a scale impossible without your assistance.