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Statement of
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Community Reinvestment Act Hearing
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Thank you for inviting the California Coalition for Rural Housing (CCRH) to comment on the Community Reinvestment Act (CRA), particularly with respect to distressed, underserved, rural areas of California.

My name is Robert Wiener and I am the Executive Director of the California Coalition for Rural Housing (CCRH). Created in 1976, CCRH is the oldest statewide coalition of nonprofit housing developers and advocates in California and one of the oldest in the U.S. CCRH's mission is to improve the living conditions of rural and low-income families through the production and preservation of affordable homes for rent and purchase. Our members are the leading producers of mutual self-help and farm worker housing in the nation.

These relationships provide CCRH with first-hand knowledge of the issues impacting rural areas. Even before the current recession, low income rural residents, and the organizations that seek to improve their housing conditions, faced enormous challenges. Endemic problems include:

- Double-digit unemployment 3-4 times higher than the statewide rate
- Much lower incomes than in urban and suburban areas due to high dependence on seasonal work in agriculture, tourism, and services
- Among the highest child poverty rates in the U.S., comparable to Appalachia and the Mississippi Delta
- High concentrations of farm workers and Native Americans, two of the worst-housed populations in the country
- Less favorable financing, e.g., higher interest rates
- Disinvestment and under-investment and lack of financial institutions.

In recent decades, rapid population growth and high housing demand from so-called "super-commuters", urban equity immigrants, retirees, and vacationers combined in some rural areas of the state to push up home prices well beyond the payment ability of rural residents. Builders built new homes for these new residents, not for existing residents. One consequence was that many small-town and rural families were enticed to buy over-priced, out-sized homes with subprime loans. These homes have now been foreclosed on or are threatened with foreclosure. A disproportionate number of foreclosed families are rural residents of color.

Rural areas have long suffered from discriminatory practices by lenders, not unlike inner city areas – redlining, higher interest rates, higher down payments, shorter amortization, and predatory loans. From the perspective of nonprofit developers of affordable rural homes working in California, our members are alarmed by recent trends that point to decreased lending and investment in rural communities:

- Banks are not lending for land acquisition or construction of single-family homes even though there is still great demand for owner-built housing in rural communities and virtually no default and foreclosure.

- When banks are willing to lend, the terms are highly unfavorable:

  * Requiring that redevelopment agencies have contracts of sale before the homes are built, instead of using the homes as collateral.
  * The loan to value has decreased from 70% to 50%, plus appraisals are artificially low, which means the amounts banks are willing to lend are very small.
  * Organizations are attempting to reduce their dependence on commercial credit.

- Banks are reducing their real estate loan portfolios, including calling loans early and pushing projects into default.

- With respect to foreclosed properties, banks have sold their best inventory to speculators. CCRH members have sought finished lots for self-help housing, but been rebuffed.

- Recently, there has been a resurgence of tax credit investor interest in urban areas and competition for more deals than are available, but no such resurgence has been witnessed in rural areas.

- In the past banks used to seek out nonprofit developers of rural housing for business opportunities and meet CRA obligations. Now, banks are no longer initiating these contacts, sensing they have a free ride on CRA at the moment.

- Nor are banks making new investments in rural CDFIs. One bank made a commitment and then reneged after purchase of another bank; another decided not to recapitalize its investment. There is little, if any, interest in rural lending.

- Regulators did a poor job of extracting concessions benefiting rural areas during the mergers that occurred within the last two years. Now, banks do not feel they will gain any credit for rural lending even when they have unmet goals in their assessment areas.

Recommendations

The Community Reinvestment Act has been an important tool in efforts to increase housing funding for the poorest rural Americans. CCRH appreciates your interest in updating and revising the CRA regulations and believes that legislative changes are needed as well. Our comments on the regulations make the following points:

- Assessment areas should be identified based on where institutions conduct substantial activities, not where their offices are physically located.
- The same performance assessment should be used for all lenders, regardless of asset size.
- Performance evaluations should include consideration of local needs, service to minorities, and fair lending.
- Evaluations should focus on each community's needs rather than what has worked well elsewhere or how innovative a tactic may be.
- New rating categories of High Satisfactory and Low Satisfactory should be added to the current four categories.
- Both incentives and penalties should be instituted to encourage improved performance.

Geographic Coverage and Assessment Areas

Physical geographic boundaries are far less relevant in this electronic age than in 1995 when the current CRA regulations went into effect. Lenders, both large and small, should be evaluated in all places where they conduct significant business, whether or not they are physically located in all such areas.

CCRH recommends identifying such places based not on the proportion of the lender's loans going to each place, but on the lender's proportion of the total loans in each place. If a lender makes 2,000 mortgage loans in one year, and three of them are in a rural county, those loans represent only two-tenths of one percent of the institution's lending. But if a total of 40 mortgage loans were made in that county that year, those three loans represent 7.5 percent of the county's mortgage lending activity. The threshold for delineation as an assessment area could be 0.5 percent, the level used by the Community Reinvestment Modernization Act of 2009 (H.R. 1479) for mortgage lenders.

Exams should provide ratings for each assessment area, such as a metropolitan areas or a rural county. Currently, only multi-state metropolitan areas and entire states receive ratings, whereas rural counties and single-state metro areas are examined as assessment areas but are not rated. Lenders should get credit for activities outside their assessment areas as well, provided that they also meet needs within their assessment areas.

Evaluations

Rural areas are disproportionately impacted by the less rigorous CRA evaluations applied to small and intermediate small institutions, the majority of which are based in rural places. The only fair solution is to apply the same level of scrutiny to all lenders regardless of size. At the very least, the less rigorous exams should not be expanded to apply to additional lenders.

CCRH also agrees with the testimony of others that the calculations used to determine CRA ratings should be more nuanced. Activities that are more responsive to local needs, more difficult, or more costly should receive greater credit than routine activities. This system should encourage lenders to, for example, reach out to underserved communities.

Evaluations should also include criteria related to institutions' service to minorities. Minorities are historically underserved by the financial sector and are disproportionately represented among people with low incomes, victims of predatory lending, and those without adequate access to banking services and credit.

Finally, evaluations should probe more rigorously for evidence of illegal and discriminatory lending. Fair lending reports on CRA exams should include detailed explanations of the fair lending tests used, and should consider illegal and discriminatory lending to be unsafe and unsound lending.

Community Needs

To be truly meaningful, performance evaluations must include information about community needs and about lenders' responses to those needs. For example, in cities and in many rural areas there are strong, capable nonprofit and for-profit entities that can provide affordable housing so long as lenders provide the financing they need. In other rural areas, however, local organizations do not have the capacity to develop the affordable housing that is needed. Addressing local needs in those areas might be best achieved by supporting capacity building activities for inexperienced organizations.

It is also important to realize that, while innovation should be encouraged, "tried and true" activities are sometimes the best. In underserved communities, basic loans and investments may be exactly what is needed. Again, institutions should be evaluated based on whether they meet community needs, rather than on criteria that work in other places.

Ratings

As many other observers have noted, the current four ratings are not adequate to express the full range of performance. The vast majority of lenders receive Satisfactory ratings, so additional information is needed to express differences among those lenders. CCRH supports the suggestion made by others to add Low Satisfactory and High Satisfactory ratings in addition to the current Outstanding, Satisfactory, Needs To Improve, and Substantial Non-Compliance ratings.

Affiliate Activities

The activities of lenders' non-depository affiliates such as mortgage companies should be included in the lenders' CRA exams. Their lending and investments should be used in determining both assessment areas and ratings.

Incentives and Consequences

Any incentives offered to encourage lenders to fulfill their obligations under CRA should not include decreasing the frequency of CRA exams or exempting institutions from review in certain situations. Lenders can be encouraged to take on new challenges, such as reaching out to previously underserved parts of their communities, simply by providing CRA credit for such activities.

The regulations should provide consequences as well as incentives. As the National Community Reinvestment Coalition has suggested, the regulators could fine lenders for repeated poor performance and use the funds collected to establish a community development lending pool. In addition, institutions with lower ratings could also be required to establish plans for improvement, publicize them, and report to the public and the regulatory agency periodically regarding compliance with their plans. CRA exams and merger approval orders could include an “expectations section” that either mandates or recommends (depending on the extent of the deficiency) improvements to specific aspects of CRA performance such as a particular type of lending or investment.

Legislative Changes

Given the significant changes in the financial industry since 1977, the Community Reinvestment Act itself should be updated. CCRH supports legislative changes including :

- expansion of coverage to include non-bank institutions such as mainstream credit unions, independent mortgage companies, insurance firms, and investment banks; and
- creation of new enforcement mechanisms that do not depend on whether lenders are merging, acquiring, or being acquired.

Conclusion

Thank you all for this opportunity to comment on the Community Reinvestment Act regulations.

I would be happy to respond to any questions