Joint Public Hearings on the Community Reinvestment Act Regulations
Federal Reserve Bank of Atlanta, August 6, 2010

Remarks of Ellen Harnick
Senior Policy Counsel, Center for Responsible Lending

## The Context

The Great Recession has exacerbated the already growing gap in wealth across the United States. Low- and moderate-income households have not only seen their economic circumstances deteriorate in recent years, but they are increasingly isolated in low-income neighborhoods, cut off from educational and employment opportunities available elsewhere.

Quality of life in their neighborhoods has typically deteriorated in recent years, as boarded up homes and shuttered businesses marked the aftermath of the subprime lending spree.

The lack of safe and affordable local daycare challenges those who are employed, and the absence of reasonably priced grocery and other retail stores further drain their resources.

Lacking trust in financial institutions, many do not use basic financial services necessary for accumulating savings, and many more rely on high-cost service providers like payday lenders and check-cashers rather than seeking credit from more affordable providers.

As always, these economic hard times have dealt a particular blow to communities of color.

## Modernizing CRA

While financial institutions can be only part of the solution, they are an important part. Their services could have a real impact on the individuals and communities that were left behind during the economic good times, and have been pushed into acute need in this recession.

And it is appropriate that the Community Reinvestment Act play an effective role in encouraging financial services that would help these communities to stabilize and rebuild. Even long before the taxpayer-funded assistance to the financial sector in recent years, financial institutions' obligation to serve the broader community was rightly regarded as a *quid pro quo* for privileges such as federal deposit insurance and access to the Federal Reserve's discount window. Yet CRA regulations have not kept up with technological and market changes, and as a result, institutions are able to easily evade their obligations—leaving the intent of the Act unfulfilled.

Intervention is needed now to help salvage distressed neighborhoods before there is little left to save – and to put low-income families on a track toward mainstream financial services, savings, and ensure that they gain a foothold into the middle class.

My broad message is that regulatory improvements to CRA can and must push institutions to provide more and better savings, transaction, and credit services to underserved communities and individuals, and to support community development projects in underserved communities.

Specific Recommendations

In particular, I would urge the following:

- CRA regulations should be better focused to specifically incent fair, affordable and sustainable savings and transactions services targeted to meet the needs of low- and moderate-income individuals.
    - CRA credit should apply only for those savings and transaction accounts that are no-minimum deposit and no-overdraft, with reasonable fees, accessible at hours and locations suitable to unbanked and under-banked customers.
- These families have credit needs that so often go unmet. It's not that they can't get *any* credit; it's that they need fair, affordable and *sustainable* credit. This is precisely what CRA was intended to address. Regulations should incent such lending, and give credit only for such lending.
    - This should include low-cost, amortizing small-dollar loans, student loans, and loans for small businesses.
    - CRA "lending test" credit also should be provided for mortgage loan modifications that reduce both principal balances and interest rates, waive penalty fees, and render the loan affordable at the homeowner's current documented income.
- The regulations should specifically penalize illegal, predatory or wealth-stripping loans and services, including accounts with fee-based overdraft and payday-like direct deposit cash advances, and mortgages with pre-payment penalties, yield-spread premiums or other risky features.
- CRA should more effectively incent loans and investments for community development projects—not as a substitute for, but in addition to, direct service to low- and moderate-income individuals.
    - A community development test should apply to all institutions, taking the institution's size and capacity into account.

    - CRA examiners should be specially trained to properly assess community development needs and the value and impact of community development projects.

- CRA coverage should be modernized based on outdated geographic boundaries and the use of corporate structures that concentrate certain practices in institutions' affiliates.

    - In any state where an institution has at least $10 million in deposits or loans, the institution's CRA compliance should include low- and moderate-income neighborhoods in that state.

- The activities of affiliates should count toward the CRA rating of the related institution.

- The rating system should be revised to more meaningfully reflect actual performance. Similarly, there need to be better incentives for institutions to strive to receive an "Outstanding" rating.

With these common-sense reforms, the banking agencies can improve institutions' CRA compliance, and help build a better quality of life and greater economic opportunity for struggling families and communities across the country.

I look forward to your questions.