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Statement of
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Community Reinvestment Act Hearing
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Thank you for inviting the Housing Assistance Council (HAC) to comment on the Community Reinvestment Act (CRA), particularly with respect to distressed, underserved, and rural areas. My name is Carolyn Branton and I am the HAC's Southeast Regional Director.

HAC is a national nonprofit dedicated to improving housing conditions for low-income rural Americans. It was established in 1971 to provide financing, information, and technical services to nonprofit, for-profit, public, and other providers of rural housing. Created to meet the housing needs of the poorest of the poor in the most rural places, HAC fulfills its mission by working in close partnership with local organizations in rural communities throughout the nation. These relationships provide HAC with first-hand knowledge of the issues impacting rural areas.

Even before the current recession low-income rural residents, and the organizations and agencies that seek to improve their housing conditions, faced housing challenges. Approximately 8.2 million rural households – three in ten – pay more than 30 percent of their monthly income for housing costs and are considered "cost-burdened." Most cost-burdened households have low incomes, and a disproportionate number are renters. While the past few decades have seen dramatic improvement in the quality of housing in rural America, 1.5 million (5.4 percent) of rural homes were either moderately or severely substandard in 2007, a slightly higher rate than for metropolitan areas.

Minorities in rural areas are among the poorest and worst housed groups in the entire nation, with extremely high levels of inadequate housing conditions. Non-white and Hispanic rural households are three times more likely to live in substandard housing than are white rural residents. Minorities are also more likely to live in inadequate housing in rural areas than in metro areas. Rural African Americans have particularly high substandard housing rates, as more than one in five rural African American headed households lives in substandard housing.

A HAC analysis of Home Mortgage Disclosure Act data found that in 2008 only 9 percent of loan originations went to minorities in rural areas although they make up 20 percent of the rural population nationwide. Earlier HAC research found that in 2004 rural minorities received far higher proportions of high annual percentage rate (APR) loans than non-Hispanic whites.

Nearly half of all rural African America borrowers and almost one-third of all rural Latino and Native American borrowers, but less than 17 percent of all rural non-Hispanic White borrowers, received high APR mortgage loans as reported by HMDA.

The Community Reinvestment Act has been an important tool in efforts to increase housing funding for the poorest rural Americans. HAC appreciates your interest in updating and revising the CRA regulations, and believes that legislative changes are needed as well.

HAC's 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 consequences should be instituted to encourage improved CRA 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.

HAC 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.

HAC 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. HAC 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. HAC 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.