The Community Reinvestment Act (CRA)

NCRC CRA MODERNIZATION TALKING POINTS

- The *Community Reinvestment Act* (CRA) is one of the most effective tools for leveraging loans and investments for low- and moderate-income neighborhoods. It also mitigates foreclosures by requiring banks to lend consistent with safety and soundness.

- NCRC supports Congressional efforts to pass the *Community Reinvestment Modernization Act of 2009*, which has been introduced in the 111th Congress by Representative Eddie Bernice Johnson. This act would strengthen CRA as applied to banks.

- The *Community Reinvestment Modernization Act of 2009* would also apply CRA to non-bank financial institutions including insurance companies, securities firms, mainstream credit unions, and independent mortgage companies.

- If passed, the *Community Reinvestment Modernization Act of 2009* would leverage billions of additional dollars in safe and sound loans and investments for America's neighborhoods.

Background

The *Community Reinvestment Act* (CRA) has been one of the most important laws for building wealth and revitalizing neighborhoods. Therefore, NCRC recommends that Congress strengthen CRA as it is applied to banks and expand CRA's reach to non-bank financial institutions.

- CRA encourages banks to respond to a variety of needs in low- and moderate-income (LMI) communities, ranging from financing affordable rental housing, homeownership, and small business creation to economic development. Federal agencies conduct CRA exams and rate banks based on the banks' lending, investing, and provision of services and branches in LMI neighborhoods.

- Since 1996, banks have made community development loans totaling more than $407 billion. They also made small business loans of more than $581 billion in LMI neighborhoods from 1996 through 2007.

- CRA mitigates foreclosures. CRA exams provide points to banks for foreclosure prevention efforts including counseling and modifying loans. CRA exams penalize banks for making loans that are unfair and deceptive.

- According to the Federal Reserve Board, only 6 percent of all high-cost loans in 2006 (a boom year for high-cost lending) were considered on bank CRA exams. Banks consistently have issued a smaller percentage of high-cost loans over the last several years than independent mortgage companies not covered by CRA.

Community Reinvestment Modernization Act of 2009 (H.R.1479)

NCRC has worked with Rep. Eddie Bernice Johnson to introduce the *Community Reinvestment Modernization Act of 2009* that would further increase loans and investments leveraged by CRA.

- The *Community Reinvestment Modernization Act of 2009* bolsters the accountability of banks to all communities. It would require CRA exams in the great majority of geographical areas banks serve. Currently CRA examines banks in areas where they have branches but not in other areas where they lend through brokers.

- This bill would address racial disparities in lending by requiring CRA exams to explicitly consider lending and services to minorities in addition to LMI communities. These disparities would be narrowed if CRA scrutinized bank performance in serving minority communities.

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- This bill would bolster the accountability of banks by introducing more publicly available ratings for banks so that the general public can more clearly discern differences in bank performance.

- This bill would further enhance accountability through improved data disclosure. Small business loan data would include the race and gender of the small business owner. Data on deposit accounts by neighborhood would be made publicly available. The *Home Mortgage Disclosure Act* (HMDA) would be linked to a new loan performance database tracking foreclosures and loan modifications. Insurance companies would be required to submit data similar to HMDA data.

- This bill would require federal regulatory agencies to hold more public hearings and meetings when banks merge. A lack of public hearings over the last several years has impeded fact-finding, dialog, and collaboration among banks, community organizations, and regulators for devising post-merger bank programs and products that preserve access to credit and capital for LMI communities.

- This bill would apply CRA to a variety of non-bank institutions including independent mortgage companies, mainstream credit unions, mortgage company affiliates of banks, insurance companies, and securities firms. The exams for non-banks would scrutinize the level of lending, investments, and other services offered in minority and LMI communities.

- Had CRA been applied to independent mortgage companies and other non-bank institutions, it is likely that our nation would not be confronted with a foreclosure crisis. CRA has a clear and powerful mandate: serve community needs consistent with safety and soundness. It is an antidote to the current crisis.

- Government loans, investments, guarantees, and subsidies for the financial industry during the current crisis will be more than $12.8 trillion. As a quid pro quo, CRA must be applied broadly throughout the financial industry. If CRA is applied in this broad-based manner, future financial meltdowns will not occur.

If passed, the *Community Reinvestment Modernization Act of 2009 (H.R.1479)* would leverage substantial sums of additional credit and capital for America's neighborhoods. It would help steer the country out of the current financial crisis by requiring financial institutions to invest responsibly in our people and our communities.