WOODSTOCK INSTITUTE
Advancing Economic Security and Community Prosperity

The American Community Investment Reform Act H.R. 6334

An opportunity to create jobs and promote economic recovery by modernizing the Community Reinvestment Act

Why modernize the Community Reinvestment Act?

The Community Reinvestment Act has created jobs, supported responsible homeownership, and expanded opportunities for saving by investing trillions of dollars in low- and moderate-income communities. Nonetheless, the rapidly-changing and complex financial landscape of today bears little resemblance to the world of 1977, when the original CRA was passed. The American Community Investment Reform Act of 2010 will make sure this crucial tool continues to be effective at creating opportunity by updating it to reflect today's financial system.

How this proposal will increase community investment

- **Expansion of CRA to non-bank institutions** - The bill expands CRA to non-bank financial institutions including independent mortgage companies, investment banks, hedge funds, and possibly insurance companies. As a result of its broad application of CRA throughout the financial industry, the bill would leverage hundreds of billions of additional dollars for loans, investments, and services to low-wealth communities. Credit unions remain exempt from CRA.

- **Inclusion of affiliates and subsidiaries of banks** - The bill requires that affiliates and subsidiaries of banks be included on CRA exams. Currently, banks can choose if their mortgage company affiliates are on their exams. Many affiliates not currently include on CRA exams have engaged in large scale abusive lending, and this bill would close that loophole.

- **Elevation of the role of community development lending and investments** - Community development loans and investments finance affordable housing, economic development, and community facilities. For banks, community development is to be weighed at least equally with any other factor. Exams of securities firms are to focus on community development loans and investments. Banks seeking *Outstanding* ratings can engage in community development outside of their assessment areas (geographical areas rated by their exams) as long as they meet the needs inside their assessment areas. Out-of-assessment area investments and loans to women- and minority-owned financial institutions and community development financial institutions (CDFIs) are also considered favorably.

- **Increases in the rigor of CRA exams** – The bill creates a new CRA rating called *Sufficient*. The new ratings scale is *Outstanding, Satisfactory, Sufficient, Needs to Improve, and Substantial Noncompliance*. Currently, over 92 percent of banks receive *Satisfactory* grades, with little to distinguish top performers and those doing the bare minimum. An institution would be required to apply to its regulatory agency if it chooses to pursue an *Outstanding* rating, and it must have at least three *Satisfactory* ratings in a row before applying for an *Outstanding* rating.

- **Increases CRA ratings transparency –** Public input while the exam is in process would be required. Once an agency finishes its exam, it must provide preliminary exam results to the public and receive comments. Currently, only banks can see and comment upon preliminary exam results. This procedure will help to reduce the practice grade inflation which has resulted in 92 percent of bank's receiving satisfactory CRA scores. If an institution has a *Needs to Improve* or *Substantial Noncompliance* it must submit an improvement plan, subject to public comment, to its agency. This will increase public input into how an institution can improve in geographical areas where its performance is weak, and will make institution performance more uniform.

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