Testimony of

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The Office of Thrift Supervision
The Office of the Comptroller of the Currency
And the Federal Deposit Insurance Corporation

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Thank you for the opportunity to testify today as part of this series of important hearings on modernizing the Community Reinvestment Act.

Since this hearing is focused on the types of financial institutions that should have reinvestment responsibilities and the geographies where those responsibilities are assessed, I will begin my statement addressing those issues. I would also like to take this opportunity to recommend several additional changes that our research has shown are necessary to improve how financial institutions are evaluated: improvements to the services test portion of the CRA and improvements to the ratings and incentive structure of the CRA. I would also like to note that many of these recommendations will require legislative changes, which we hope Congress will address in the near future.

Woodstock Institute is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. For nearly 40 years, Woodstock Institute has worked locally and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity.

With the passage of the Dodd-Frank Act and the creation of a Consumer Financial Protection Bureau that will monitor potentially abusive financial products and services, it is important to examine and improve strategies to ensure equitable access to responsible and fairly priced products. The CRA has proven to be one of the best tools to achieve this goal, but it can continue to do so only if the following changes are made.

The CRA must be expanded to include all types of financial institutions, not just depositories – The percentage of assets deposited in banks and thrifts, which have community reinvestment obligations under CRA, has declined dramatically.[1] As financial assets migrate to other types of institutions such as mortgage companies, insurance companies, credit unions, and securities companies and these institutions take on a greater role in providing financial products to consumers, it is critical that we expand the scope of CRA to these types of institutions to ensure that it remains relevant and effective at encouraging financial services providers to meet the needs of low-wealth people and communities.

[1] Avery, Robert, Marsha Courchane, and Peter Zorn. "The CRA within a Changing Financial Landscape." 8 Apr 2009. Web. 30

Mortgage companies and brokers

- Mortgage lending is now much more likely to occur not through bank branches but through affiliates or mortgage brokers that currently have no community reinvestment obligation.[2]

- It is critical that mortgage companies and brokers that account for such a large share of the mortgage market be subject to the transparency and accountability that the CRA provides.

Insurance companies

- Under the Dodd-Frank Act, a new Federal Insurance Office will be established to monitor the provision of insurance and to collect and disseminate data on the insurance industry.

- We believe that, using these data to inform the process, insurance companies should be subject to community reinvestment obligations similar to other financial institutions.

Credit unions

- Our research shows that credit unions serve a much lower percentage of lower-income households than they do middle and upper-income households.[3]

- Credit union members receive significant financial benefits directly subsidized by federal and state tax exemptions; as such, credit unions should have community reinvestment obligations under the CRA.

Securities companies

Access to stocks, mutual funds and other securities provides families with the opportunity to build long-term wealth. According to the 2007 Survey of Consumer Finances, white families are more than twice as likely to hold stocks as are families of color.

- Investments in stocks and mutual funds represent a significant portion of most American's retirement savings – an important component of the social safety net. With nearly 50 percent of workers lacking any retirement savings through their employers, I recommend that securities companies, which derive substantial profits from managing retirement savings, have a community reinvestment obligation to address this persistent gap in access and opportunity.

Assessment areas – Currently, the CRA does not require banks to serve the financial needs of all of the communities where they actually lend—only where they have bank branch locations. However, new types of financial institutions such as online banks have emerged and institutions such as insurance companies have expanded to provide other products and services. Our research has also found that CRA-regulated institutions lending outside of their CRA assessment areas had a much higher percentage of higher-cost loans than they did when lending within their assessment areas.[4]

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[2] Ibid.

[3] Jacob, Katy, Malcolm Bush, and Daniel Immergluck. *Rhetoric and Reality: Many Mainstream Credit Unions Do Not Serve Lower Income People*. Chicago, IL: Woodstock Institute, 2002. Web. 22 Jul 2010.

[4] *Paying More for the American Dream III: Promoting Responsible Lending to Lower-Income Communities and Communities of Color*. Woodstock Institute et al, 2010. Web. 23 Jul 2010.

To address these issues, I would like to recommend that assessment areas be defined as any state, metropolitan area or rural county where a CRA-covered institution maintains retail offices or is represented by an agent or has at least a 0.5 percent market share in housing-related loans, securities, insurance, or any other financial instrument designated as CRA-eligible for the purposes of establishing an assessment area.

I would also like to take this opportunity to discuss improvements to the services test portion of the CRA and improvements to the ratings and incentive structure of the CRA.

The existing framework of the Services Test is insufficient to measure a bank's performance in low-wealth communities.

- Banks should disclose, and regulators should consider, demographic information on account holders, accounts, and transactions including such critical variables as census tract location, account holder, number of new accounts opened, age of account, and percent of bank income generated by fees.

We recommend creating several new compliance incentives for the CRA.

- Financial institutions should ensure that communities are aware of their reinvestment goals and can actively participate in achieving them. A publicly available community reinvestment plan would ensure that these goals are both transparent and allow the public and regulators to determine if the financial institution was able to achieve those goals leading up to a regulatory performance evaluation.

- When a financial institution fails to live up to its reinvestment goals, it should be required prepare and submit a public improvement plan.

- For financial institutions that still do not improve after receiving a low-satisfactory or lower rating, we recommend meaningful corrective action – for example, prohibit them from selling mortgages to the GSEs, be ineligible to contract with federal agencies, and/or require them to pay any applicable fines to a national reinvestment fund.

- We also recommend that the CRA give regulators the ability to provide favorable consideration for financial institutions that provide support for national investment funds, work with local organizations to develop local or regional CRA commitments, offer affordable small dollar loan products, or provide increased equity investments in CDFIs.

- Finally, in the event of an emergency acquisition initiated by a bank regulator, we request that the regulator hold public hearings in at least one of the financial institution's assessment areas and require that the acquiring institution develop a CRA plan to effectively invest in the acquired institution's assessment areas.

Once again, I appreciate the opportunity to present these recommendations and look forward to both the legislative and regulatory changes necessary to make these important changes.