Community Reinvestment Act Joint Public Hearings, August 12, 2010
Panel Two: Dan Immergluck

Dan Immergluck:
Thank you. I'm Dan Immergluck and I'm from Georgia Tech in Atlanta but a lot of folks in this room know that I spent a good number of years here with the Woodstock Institute and doing community development finance. But over the last 15 to 20 years I've studied CRA quite a bit.

In general, I want to make two broad comments--one is that as lots of folks have said, CRA has suffered from decrease in coverage in a variety of markets over the last 30 years and it isn't just since 1995. In fact, even by 1995 CRA covered lending, while the ‘95 Regs only covered just over a third of mortgage loans. That's down to about a quarter now so it's just gotten worse that CRA covered lenders in their assessment areas.

Second is the consistency of enforcement is really varied, and in a book I wrote I showed that after Gene Ludwig's tender at OCC, there was just fewer outstanding ratings. When some of his staff went to the FAC, outstanding ratings shrunk there. There's been a lot of undulation and variation in CRA enforcement over the years especially in the 2000s.

Some specific issues: First kind of tagging along what Ellen Seidman said and what Gene Ludwig said and what Gene Ludwig said a little bit ago, I actually think we need to shift bank holding company CRA evaluations. Everything should go into the pot in one very large exam. It would be much more efficient, these would be interagency exams with maybe the largest depository in the BHC being kind of the lead agency. Everything that the BHC does needs to be in the exam, as Dory Rand said, she stole my only clever line, I don't survey students about what they want on their midterm. Everything goes in that I think should go in. I definitely think the assessment areas need to be based on market penetration as some of the panel has said. Basically any county, any MSA, rural county or MSA that the bank has an appreciable market share in should be in the evaluation; and for small institutions it's also going to be any county or MSA that's a sizeable portion of their own market, and I've got more details in my written testimony on that.

I definitely like the suggestion in the last panel by Ellen Seidman and others about the kind of MSA level and remaining state community needs analyses, and that's a recommendation that Michael Rubinger from LISC made at the Arlington hearing, but I think it needs to be throughout the entire exam and not just on some community development test. There's no reason to not do that on the service test and on the lending test.

My third point is yes we need to improve the qualitative aspects of CRA evaluation but I do not want to go back to pre-Gene Ludwig days of 12 assessment factors and pretty much the banks decide how your evaluation goes. If we move away completely from qualitative analysis that's what we will get. We need to do quantitative analysis, we need to do it smarter and better and it will compliment the qualitative analysis. We need to break out investments by type of investment instead of glomming all together and counting up the dollars. We need to count the dollars in equity investments versus the dollars in MBS investments if those should be counted at all. A better approach is to rationalize improve the qualitative measures; not to get rid of it.

There is always going to be kind of a reliability accuracy tradeoff, validity tradeoff but we've got to use both.

Finally, and I think I respectfully disagree with Vice Chairman Gruenberg. I don't think the hardest part is figuring out the assessment areas. I think the hardest part of improving CRA is figuring out what's good product and what's bad product. And this goes back to Deputy Director Barnes comment and Director Seidman's response--it's got to fall to the regulators. The regulators have got to use these community needs assessments but they've also got to figure out ways like they have done in fair lending exams, of what's bad products. And maybe it's not bad; maybe it's less good, but if you've got one lender making good loans, let's call them qualified mortgages to follow Dodd Frank in low mod areas, and another lender making non-qualified, they shouldn't get the same credit.