



**SHRIVER  
CENTER**

Sargent Shriver National Center on Poverty Law

**Community Reinvestment Act Public Hearings  
Federal Reserve Bank of Chicago  
August 12, 2010**

**Oral Testimony of Karen K. Harris  
Supervising Attorney, Community Investment Unit  
Sargent Shriver National Center on Poverty Law**

My name is Karen Harris and I am the Supervising Attorney of the Sargent Shriver National Center on Poverty Law's Asset Building Unit. I come here today in support of revisions to the Community Reinvestment Act ("CRA").

The legacy of the Community Reinvestment Act runs deep in Chicago. A local Chicago bank, now ShoreBank Corporation, provided the only bank testimony in favor of CRA during the Congressional hearings of the 1970s. Since its inception in 1973, ShoreBank has been a model bank committed to social justice and it has received an Outstanding CRA rating on every exam going at least as far back as 1992. Similarly, for 30 years Park National Bank, known as one of the most philanthropic banks in the Chicago area, successfully offered banking services to low-income families and gave them an alternative to payday lenders, currency exchanges and subprime loans.

Both ShoreBank and Park National Bank represent the ideals of CRA. Unfortunately, such exemplary CRA efforts have not been rewarded in their recent efforts to remain viable.

In 2009 the FDIC took over Park National's parent company and sold it to U.S. Bank. ShoreBank also faces a similar fate of seizure if its efforts to recapitalize are not successful. If these were big banks, like JP Morgan Chase, Wells Fargo or Citigroup, they would have been saved by Troubled Asset Relief Program ("TARP") bailout funds. Yet, Park National, though initially approved for TARP funding, ultimately never received any funds. Similarly, ShoreBank's application for TARP funding is uncertain.

When community banks, with strong 30 to 40 year CRA records are allowed to fail, while big banks, whose CRA activities led to the economic crisis, are bailed out, it is abundantly apparent that the time to modernize CRA is now.

Thus, we applaud your intentions to improve CRA. Yet regulatory action alone is not sufficient. We therefore encourage Congress to pass the Community Reinvestment Modernization Act of 2009, H.R. 1479, in addition to the regulatory reforms discussed at today's hearing.

A more thorough discussion of the Shriver Center's recommendations are contained in the written comments we submitted. In general, in order for CRA to realize its full potential, the following reforms are needed:

**Expand Assessment Areas and Mandatory Inclusion of Mortgage Company Affiliates**

- The definition of assessment area must be expanded to include loans made outside of the currently defined boundaries to ensure that such loans are not high-cost.
- Banks must be required to include their non-depository affiliates on the CRA exam to ensure that such lending affirmatively responds to credit needs in a safe and sound manner.

**Directly Examine Lending to Minorities**

- Bank lending to minorities must be explicitly reviewed on CRA exams to ensure that banks are affirmatively making loans to such populations.

**Revise CRA Exam Ratings, Scoring and Weighting**

- More scrutinizing CRA examinations must be conducted to address recent CRA exam grade inflation.
- An expanded and comprehensive scoring methodology, including more ranking grades and applying rankings to each of the elements of the exam tests must be implemented to provide meaningful comparisons of banks' CRA activities.
- A weighting system which considers the degree of loan affordability, responsiveness to local needs and other CRA fair lending criteria must be implemented to recognize the differences between various types of lending.

**Data Enhancements**

- Data collection and analysis, including information on small dollar lending as an alternative to payday loans and efforts to improve access to affordable financial services through starter accounts for the unbanked, must be incorporated into CRA to evaluate banks' efforts to reach the most vulnerable populations.

**Enforcement Mechanisms**

- Tightening and enforcing repercussions for failure to meet CRA requirements including, submission of corrective action plans, public hearings to appeal CRA exam rankings that seem unjustified and/or inflated, requiring descriptions of CRA activities post-merger and denying merger applications for banks failing CRA exams.

**Wall Street Reform and Consumer Protection Law**

- CRA modernization must coordinate with and leverage the financial reforms effectuated by the passage of the Wall Street Reform and Consumer Protection Act and the creation of the Consumer Financial Protection Bureau (CFPB). For

instance, the new financial reform bill establishes a loan loss reserve fund to encourage the creation of affordable small dollar loans. CRA regulations and agency guidance should provide templates for the characteristics of responsible small dollar loan products such as underwriting that takes into account a consumer's ability to repay the loan, an APR including fees of less than 36%, a loan repayment term of at least 90 days, and a fully amortized payment schedule.

**Revise Definitions under the Neighborhood Stabilization Program**

- The proposed rule to include in the definition of “community development” loans, investments, and services by financial institutions that support, enable, or facilitate projects or activities approved by the U.S. Department of Housing and Urban Development (HUD) under the Neighborhood Stabilization Program (NSP) should be adopted to mitigate the effects of the foreclosure crisis and evaluate how financial institutions are meeting this pressing need.

I appreciate the opportunity to comment on the agencies' proposals and look forward to working with you to develop an improved CRA.

Sincerely,

Karen Harris  
Supervising Attorney, Asset Building Unit  
Sargent Shriver National Center on Poverty Law  
50 E. Washington, Suite 500  
Chicago, IL 60602