

PROPOSAL TO MODERNIZE THE COMMUNITY REINVESTMENT ACT

Presentation at Public Hearings before the
Federal Reserve Bank of Chicago

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By

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Thank you for the opportunity to present testimony on the urgent need for CRA modernization and to support the Illinois Community Investment Coalition's recommendations on the need for new legislation. My particular interest as Co-President and Co-Founder of the Women's Business Development Center in keeping with our commitment to economic opportunity to assist the minority and women's small business community of the Chicago metropolitan area as well as our commitment to fuel economic growth for our City, our State and for the overall well-being of our Country.

The Community Reinvestment Act has had critical impact on providing financial services to all members of our community with particular emphasis on mortgage and business lending and in supporting economic development organizations that enhance our communities. In 2005, unfortunately, that changed when the federal regulators took a step back and weakened the exams and CRA was no longer the same priority. At the end of 2007, when the 2nd worst economic recession in our history began, the banking environment for small business crumbled and CRA was not effective in stimulating safe and sound lending. The impact has been especially detrimental on low and moderate wealth communities and has had drastic impact on small women and minority-owned businesses.

My organization, the Women's Business Development Center in collaboration with other minority and women's business organizations, represents thousands of women and minority women business owners in the Chicagoland area. The WBDC has a continuing commitment to investment into low and moderate-income families, businesses and neighborhoods through business development and specifically efforts to provide desperately needed access to credit in these communities.

The WBDC provides counseling, entrepreneurial training, financial assistance, business and strategic planning, marketing, loan packaging, certification and procurement assistance and other services and programs to start-up, emerging and established businesses. Our organization is now the oldest, largest and most comprehensive women's business assistance center in the U.S. now celebrating its 25th year helping over 60,000 women and minorities develop, sustain

and grow their businesses.

Recommendations

We believe that the Community Reinvestment Act must be modernized to be effective in this decade and in this economic environment. This can best be done through more appropriate, new legislation rather than through regulatory changes. We recommend new legislation that will include:

- **Expanding the scope of the CRA to include other financial institutions such as, credit card companies, mortgage companies and brokers, insurance companies, securities companies, mainstream credit unions, etc.** These financial institutions have garnered significant market share and impact availability of capital to consumers and small businesses.
- **Financial institutions should invest where they do business.** Assessment areas should be defined as any state, metropolitan area or rural county where that institution maintains a retail office, is represented by agents, or has an identified market share through online services.
- **Improve compliance incentives and ensure investment obligations are applied consistently.** Public improvement plans must be approved for ratings less than satisfactory with increased requirements for those who are not improving. Limit activities of failing banks to ensure that CRA is not compromising safety and soundness. The coalition is opposed to exemptions from CRA on merger applications or decreasing the frequency of CRA exams for institutions with Outstanding ratings. Public scrutiny must be constant and consistent. Reward financial institutions that develop local or regional CRA agreements or establish pilot projects or initiatives to be more responsive to the needs of communities.
- **Improve ratings transparency, and expand and weight the ratings to more appropriately reflect compliance with CRA as well as safety and soundness.**
- **Increase opportunities for public comments for mergers and acquisitions to ensure that the community continues to be served by the acquiring financial institution.**
- **Improve CRA Services test.** Banks should disclose and regulators should consider information on account holders, accounts, and transactions, and dramatic changes in that data.

- **Expand small business data disclosure requirements to include the race, ethnicity and gender of borrowers.** Additionally collect information on the type and purpose of financing being provided. Lower reporting requirements to include financial institutions with more than \$250 million in assets, not just the largest banks. As we all know, smaller financial institutions as a group significantly contribute and impact small business growth.

Small business lending in low and moderate income communities and loans to minority and women-owned businesses would be enhanced with the collection of gender and race-based lender data that has been available for housing through HMDA but has not been available for small business. This adaptation of Regulation B will help monitor and develop successful policies and programs to enhance the growth of small business lending where it is most needed and ensure that all members of the community are fairly served.

- **Increase focus and reward financial institutions that provide products and services that stabilize communities with activities that create jobs, provide financial education and fuel economic growth.** Currently, significant CRA focus is on particular products, e.g., home mortgages, and activities, e.g., small business pre-approval mailers, that are ineffective in stabilizing communities in this economic environment. Credit and reward should be increased for financial institutions that invest in economic empowerment organizations that serve and lend to small business owners in their communities to stimulate growth and augment direct lending. Financial education is required before home ownership as this recent mortgage debacle has taught us. Therefore, credit and reward should be increased for financial institutions that invest in informing and preparing consumers for home ownership. Promoting these activities through changes in CRA will balance fueling growth through increased appropriate lending and maintaining the safety and soundness of banks.

This is a timely window of opportunity. Our organization and hundreds of community and economic development organizations agree that the Community Reinvestment Act needs to be expanded and modernized to better serve the community, fuel jobs and create sustainable economic growth.

Thank you for the opportunity to present before you today.

Hedy M. Ratner, Co-President
Women's Business Development Center
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