Community Reinvestment Act Joint Public Hearing, August 12, 2010
Panel One: Dory Rand

Dory Rand:
Good morning. Thank you for the opportunity to testify today at these important hearings. 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'll begin addressing those issues; but I would also like to take the opportunity to recommend some additional changes that our research has shown are necessary to improve how financial institutions are evaluated; improvement to the services test portion of the CRA, and improvements to the ratings and incentive structure of CRA. I'd also like to note that some of my suggestions will require legislative changes, which we hope Congress will address in the near future.

Woodstock Institute is a leading non-profit research and policy organization focusing on fair lending wealth creation and financial systems reform. For nearly 40 years Woodstock has worked locally and nationally to create a financial system, in which lower wealth persons and communities can 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 the new Consumer Financial Protection Bureau that will monitor potentially abusive financial products and services, it's important to examine and improve strategies to insure equitable access to responsible and fairly-priced products. CRA has proven to be one of the best tools to achieve this goal, but it continues to do so only if the following changes are made.

First of all CRA must be expanded to include all types of financial institutions, not just depositories. The percentage of assets deposited in banking thrifts, which have community reinvestment obligations under CRA has declined dramatically. As financial assets migrates to other types of institutions such as mortgage companies and insurance companies, credit unions and securities companies. As these institutions take on a greater role in providing financial products and services to consumers, it's critical that we expand the scope of CRA to include them and to insure that it remains relevant. Mortgage companies and brokers are now much more likely to do loans in many of our areas. Mortgage lending is likely to occur without any coverage under the current roles of CRA obligations. It's critical that these companies and brokers that account for such a large share of the mortgage market be subject to the transparency and accountability that CRA requires.

Under the Dodd Frank Act a new federal insurance office will be established to monitor provision of insurance and collect and disseminate data on the insurance industry. We believe that using that data to inform the process, then insurance companies should also become subject to CRA obligations. Our research also shows that credit unions serve a much lower percentage of lower income households than they do the middle and upper income households. Credit union members receive significant financial benefits directly subsidized by federal and state tax exemptions, and as such credit unions should have CRA obligations as well.

Finally, security companies: access to stocks, mutual funds and other securities provide 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. We believe that investments in stocks and mutual funds represent a significant portion of most American's retirement savings and an important component of the social safety net. Half of our workers lack access to retirement savings through their work. So we need to also cover securities' companies, which derive substantial profits from managing retirement savings and have a community reinvestment obligation that addresses this gap in access and opportunity.

So turning to the roles that you can do under the current CRA law, with respect to assessment areas--currently the CRA does not require banks to serve the financial needs of all the communities in which they actually lend, only where they have the bank branch locations and generally only the ones where the bank chooses to be evaluated. The new types of financial institutions, such as online banks, that have emerged and insurance companies have expanded to provide other products and services. Our research has found that CRA-regulated institutions lending outside of their CRA assessment areas had a much higher percentage of higher cost loans than they did while lending within their assessment areas. I think this goes against the suggestions that we've heard today about letting the banks choose their own assessment areas or limiting them to where they have headquarters or limiting them to deposit-taking areas.

To address these issues I'd like to recommend that assessment areas be defined as any state, metropolitan area, or rural county that has at least 0.5% market share and housing related loans, securities, insurance or other financial instruments designated as CRA eligible for purposing of establishing the assessment area. And I'll save comments on the service test for questions.