Community Reinvestment Act Joint Public Hearing, August 12, 2010
Panel Three: Warren McLean

Warren McLean:
Thank you for inviting me to testify on the Community Reinvestment Act regulations. My name is Warren McLean, and I'm Vice President of Development At Community Reinvestment Fund USA, or CRF. CRF is a national nonprofit financial intermediary and a CDFI. And we are the nation's leader in accessing capital, accessing capital markets on behalf of local community development lenders. Over the past 22 years, we have delivered $1.2 billion to low and moderate income communities through our securitization activities and our new markets tax credit facilities. These resources have leveraged an additional $1.1 billion in total project cost.

CRF obtains capital by operating a secondary market for loans and by selling new markets tax credits to investors. CRF pioneered the development of asset-backed community development securities, and we issued the first economic development revenue notes rated by Standard & Poor's and achieved AAA ratings. CRF is also the second largest new markets tax credit allocatee in the country and the largest allocatee specializing in pooled small business loans.

I'm pleased to offer these recommendations to enhance the CRA regulations, a law that has played a major role in stimulating lending in disadvantaged communities and improving people's lives.

First, remove all geographic constraints on loans and investments made to CDFIs. CDFIs have a primary mission of community development, and they have the expertise to deliver credit and capital to low wealth communities. Amend the definition of community development to give banks favorable CRA consideration for when investing in or lending to CDFIs, regardless of where the CDFI operates. This would treat CDFIs the same as minority- or women-owned financial institutions and low income credit unions.

Second, provide full CRA credit for any investments made in nationwide funds that serve a national market. Pooled vehicles are effective in providing credit for community development activities, offering efficiencies and reducing risk through diversification. We should encourage investing in these vehicles. Similar treatment should be applied under the community development test for wholesale or limited purpose institutions.

Third, elevate the importance of small business lending in the interagency questions and answers by including more examples of CRA-eligible activities so that banks are encouraged to meet their community reinvestment responsibilities through loans and investments to small firms, as well as affordable housing.

Fourth, establish incentives for grants; equity; and equity equivalent investments or EQ2s that capitalize CDFIs. CDFIs are among the most effective intermediaries for delivering credit in low income communities. The CRA regulations should encourage capital investments and CDFIs by providing extra credit or greater weight for grants, equity, or equity equivalent investments in these organizations.

Fifth, eliminate all geographic criteria for wholesale or limited purpose institutions under the community development test. Changes in technology and how these banks source their short-term liabilities have rendered assessment areas meaningless for these institutions. Similarly, these banks lend nationally rather than serving a particular geographic area. Requiring these banks to reinvest where they're located concentrates their CRA activities in a few places while other communities may not be adequately served.

Sixth, reconsider the concept of innovative and complex lending and investments practices in the context of the current environment. Banks have dramatically tightened their credit standards and are making fewer loans, especially in low income communities. Small businesses cannot get adequate credit. SBA-guaranteed loans were considered routine a few years ago. They should now be deemed innovative and complex, as so few banks are making them.

Finally, create incentives for banks to extend longer term loans and investments. Rather than rewarding banks for making loans or investments that match the CRA examination cycle, encourage these institutions to offer terms that are more responsive to the longer term needs of borrowers by offering continuing CRA credit for the life of the loan or investment. I thank you for this opportunity to share our views, and I welcome your questions.